

# **City of Romulus, Michigan**

---

**Financial Report  
with Supplemental Information  
June 30, 2008**

# City of Romulus, Michigan

---

## Contents

<b>Report Letter</b>	1-2
<b>Management's Discussion and Analysis</b>	3-7
<b>Basic Financial Statements</b>	
Government-wide Financial Statements:	
Statement of Net Assets	8
Statement of Activities	9-10
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	11
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	12
Statement of Revenue, Expenditures, and Changes in Fund Balances	13
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	14
Proprietary Funds:	
Statement of Net Assets	15
Statement of Revenue, Expenses, and Changes in Net Assets	16
Statement of Cash Flows	17
Fiduciary Funds:	
Statement of Net Assets	18
Statement of Changes in Net Assets	19
Component Units:	
Statement of Net Assets (Deficit)	20
Statement of Activities	21-22
Notes to Financial Statements	23-50
<b>Required Supplemental Information</b>	51
Budgetary Comparison Schedule - General Fund	52-53

# City of Romulus, Michigan

---

## Contents (Continued)

<b>Other Supplemental Information</b>	54
Nonmajor Governmental Funds:	
Combining Balance Sheet	55-56
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit)	57-58
Internal Service Funds:	
Combining Statement of Net Assets	59
Combining Statement of Revenue, Expenses, and Changes in Net Assets	60
Combining Statement of Cash Flows	61
Agency Funds - Combining Statement of Assets and Liabilities	62
Tax Increment Financing Authority:	
Governmental Fund Balance Sheet/Statement of Net Assets	63
Statement of Governmental Revenue, Expenditures, and Changes in Fund Balance/Statement of Activities	64
<b>Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards</b>	65-67
Schedule of Findings	68-70



**Plante & Moran, PLLC**  
27400 Northwestern Highway,  
P.O. Box 307  
Southfield, MI 48037-0307  
Tel: 248.352.2500  
Fax: 248.352.0018  
plantemoran.com

## Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council  
City of Romulus, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Romulus, Michigan as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Romulus, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Romulus, Michigan as of June 30, 2008 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedule as identified in the table of contents are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Honorable Mayor and  
Members of the City Council  
City of Romulus, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Romulus, Michigan's basic financial statements. The accompanying other supplemental information as identified in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2008, included at the end of this document, on our consideration of the City of Romulus, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*Plante & Moran, PLLC*

December 11, 2008

# City of Romulus, Michigan

## Management's Discussion and Analysis

The following discussion and analysis of the City of Romulus, Michigan's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2008. Please read it in conjunction with the City's financial statements.

### Financial Highlights

The following represents the most significant financial highlights for the year ended June 30, 2008:

- Total revenues within the General Fund increased by \$1,421,893, an increase of 6.6 percent.
- The City continued its enhanced traffic safety effort in an attempt to slow traffic and decrease motor vehicle accidents and to support the State of Michigan's effort to enforce federal speed limits as mandated by the U.S. Department of Transportation. This program has provided the General Fund with a revenue increase of \$1.1 million dollars.
- Again this year, state-shared revenue was reduced by the State of Michigan by approximately \$51,000. This represents a 2.3 percent decrease from the prior year and a total decrease of \$740,362 or 25.5 percent since 2001.
- Property taxes are the City's single largest source of revenue. The City's taxable value for fiscal year 2007/2008 was \$1,364,417,124, which represents an increase of \$29,515,657 or 2.3 percent. As a result, the General Fund had an increase in tax revenue of \$202,803. Considering the current housing foreclosure crisis within the state of Michigan, it is likely that the City will sustain a loss in taxable value in future tax years.
- Due to falling interest rates, investment income with the governmental funds decreased \$93,569.
- Total expenditures within the General Fund increased \$911,069, an increase of 4.4 percent.
- Public safety costs increased by \$896,319, which was due to an increase in salary, overtime, and fringe benefit costs.
- Through increased monitoring and enhanced efforts in fuel conservation, the Motor Vehicle Fund's unrestricted net assets have slightly increased to approximately \$364,000. Essentially, with this level of unrestricted net assets, the City does not have adequate funds available for additional investment in capital assets.

# City of Romulus, Michigan

## Management's Discussion and Analysis (Continued)

### Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report City operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

### The City as a Whole

The following table shows, in a condensed format, the net assets as of June 30, 2008 and 2007 (in thousands of dollars):

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
<b>Assets</b>						
Current assets	\$ 14,114	\$ 12,645	\$ 14,681	\$ 14,781	\$ 28,795	\$ 27,426
Noncurrent assets	63,812	61,305	60,210	58,155	124,022	119,460
Total assets	77,926	73,950	74,891	72,936	152,817	146,886
<b>Liabilities</b>						
Current liabilities	4,410	3,997	3,963	4,138	8,373	8,135
Long-term liabilities	6,134	6,710	30,879	30,503	37,013	37,213
Total liabilities	10,544	10,707	34,842	34,641	45,386	45,348
<b>Net Assets</b>						
Invested in capital assets -						
Net of related debt	57,538	54,339	27,877	26,915	85,415	81,254
Restricted	4,773	4,264	6,604	6,843	11,377	11,107
Unrestricted	5,071	4,640	5,568	4,537	10,639	9,177
Total net assets	<u>\$ 67,382</u>	<u>\$ 63,243</u>	<u>\$ 40,049</u>	<u>\$ 38,295</u>	<u>\$ 107,431</u>	<u>\$ 101,538</u>

The City's combined net assets increased by \$5,893,000. The net assets of the governmental activities increased by approximately \$4 million or 6.5 percent and business-type activities increased \$1.7 million or 4.6 percent. The increase in the governmental activities net assets was primarily a result of a capital contribution related to the DPW building which was a joint governmental project. The increase in business-type activities net assets primarily relates to the junction subdivision water main replacement project.

# City of Romulus, Michigan

## Management's Discussion and Analysis (Continued)

The following table shows the changes in net assets during the current year (in thousands of dollars):

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
<b>Net Assets</b> - Beginning of year	\$ 63,243	\$ 64,455	\$ 38,295	\$ 35,888	\$ 101,538	\$ 100,343
<b>Revenue</b>						
Program revenue:						
Charges for services	7,368	5,866	10,169	9,691	17,537	15,557
Operating grants and contributions	2,936	2,495	57	19	2,993	2,514
Capital grants and contributions	6,031	1,714	1,268	678	7,299	2,392
General revenue:						
Property taxes:						
City	10,754	10,553	-	-	10,754	10,553
Sanitation	998	972	-	-	998	972
Street lighting	416	420	-	-	416	420
EPA	-	-	2,125	2,474	2,125	2,474
State-shared revenue	3,644	3,715	-	-	3,644	3,715
Unrestricted investment earnings	744	843	372	373	1,116	1,216
Miscellaneous revenue	1,204	1,097	89	92	1,293	1,189
Total revenue	34,095	27,675	14,080	13,327	48,175	41,002
<b>Program Expenses</b>						
General government	4,628	4,469	-	-	4,628	4,469
Public safety	12,459	11,933	-	-	12,459	11,933
Public works	10,530	11,047	-	-	10,530	11,047
Health and welfare	233	210	-	-	233	210
Community and economic development	129	141	-	-	129	141
Recreation and culture	1,810	1,092	-	-	1,810	1,092
Interest on long-term debt	167	189	-	-	167	189
Water and sewer	-	-	12,326	10,920	12,326	10,920
Total program expenses	29,956	29,081	12,326	10,920	42,282	40,001
<b>Special Item</b> - Transfer of asset	-	194	-	-	-	194
<b>Change in Net Assets</b>	4,139	(1,212)	1,754	2,407	5,893	1,195
<b>Net Assets</b> - End of year	<u>\$ 67,382</u>	<u>\$ 63,243</u>	<u>\$ 40,049</u>	<u>\$ 38,295</u>	<u>\$ 107,431</u>	<u>\$ 101,538</u>

### Governmental Activities

The City's total governmental revenues increased by approximately \$6.4 million, primarily due to fine and forfeits and inspection fees.



# **City of Romulus, Michigan**

---

## **Management's Discussion and Analysis (Continued)**

Total program expenses increased by 3 percent primarily due to an increase in public safety costs and the opening of the new Romulus Athletic Center.

### **Business-type Activities**

The City's business-type activities consist of the Water and Sewer Fund. We provide water to residents from the Detroit Water System. We provide sewage treatment through Wayne County Downriver Sewage Disposal System and Rouge Valley Sewage Disposal System. The operating loss in FY 2007/2008 was increased from \$307,000 to \$772,000, which was primarily due to an increase in bad debt expense.

### **The City's Funds**

The analysis of the City's major funds begins on page 11, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities. The City's major funds for 2008 include the General Fund and the Water and Sewer Fund. The Water and Sewer Fund is described above.

The General Fund pays for most of the City's governmental services. The most noteworthy are police and fire, which incurred expenses of approximately \$11.5 million in 2008. Additionally, the building and grounds department is significant in that it contains 11 percent of the total General Fund expenditures.

### **General Fund Budgetary Highlights**

Although the City of Romulus achieved a measurable increase in fund balance, this must be tempered with the State's current economic downturn and the recent increase in mortgage foreclosures and bankruptcies. In addition, expenditures for energy and legacy costs have continued to rise; therefore, it must be understood that we must continue to closely monitor expenditures and enhance revenues in order to maintain a positive fund balance.

The most significant budget variances related to buildings and grounds expense and revenue from state sources, in which actual expenditures were under budget by approximately \$1.8 million and actual revenues were under budget by approximately \$1.6 million. The variances relate to the Clean Michigan project. The cost of this project exceeded the grant amount; therefore, it was determined not to proceed with the project and funds were returned.

# **City of Romulus, Michigan**

---

## **Management's Discussion and Analysis (Continued)**

### **Capital Asset and Debt Administration**

The Romulus Athletic Center is a membership-based fitness facility which houses an aquatic complex, fitness area, walking track, multi-purpose space, and administrative offices. This facility opened in April 2008. Rink Management Inc. has been hired to operate the day-to-day operation of this facility. Future tax increments will be pledged for the construction cost. Other projects include the replacement of the Hildebrandt water main, the extension of Vining Road, and the relocation of the Wayne/Wahrman intersection.

### **Economic Factors and Next Year's Budgets and Rates**

The City's budget for next year requires \$2.2 million of fund balance in order to provide a balanced budget. Because of reductions in several of the City's major revenue sources, the City needs to continue to watch its budget very closely.

### **Contacting the City's Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the administration offices at City Hall.

# City of Romulus, Michigan

## Statement of Net Assets June 30, 2008

	Primary Government			Component
	Governmental	Business-type	Total	Units
	Activities	Activities		
<b>Assets</b>				
Cash and investments (Note 3)	\$ 9,007,442	\$ 2,610,165	\$ 11,617,607	\$ 11,851,642
Receivables - Net (Note 4)	2,787,392	3,459,261	6,246,653	212,059
Accounts receivable from component units (Note 6)	379,971	-	379,971	-
Accounts receivable from primary government (Note 6)	-	-	-	59,940
Advances to primary government (Note 6)	-	-	-	156,505
Due from other governmental units	1,532,650	390,442	1,923,092	30,644
Inventories	175,679	83,278	258,957	-
Prepaid costs and other assets	230,595	-	230,595	189,611
Restricted assets (Note 7)	-	7,960,896	7,960,896	-
Other assets	-	176,538	176,538	1,028,244
Capital assets - Net (Note 5):				
Assets not being depreciated	6,203,710	802,343	7,006,053	3,164,739
Assets being depreciated	57,608,584	59,408,180	117,016,764	23,894,937
<b>Total assets</b>	<b>77,926,023</b>	<b>74,891,103</b>	<b>152,817,126</b>	<b>40,588,321</b>
<b>Liabilities</b>				
Accounts payable	1,161,235	875,965	2,037,200	634,896
Accrued and other liabilities	911,190	724,671	1,635,861	68,345
Retainage payable	-	-	-	41,721
Customer deposits payable	-	53,762	53,762	-
Accounts payable to primary government (Note 6)	-	-	-	379,971
Advances from component units (Note 6)	156,505	-	156,505	-
Accounts payable to component units (Note 6)	15,059	44,881	59,940	-
Due to other governmental units	818,066	-	818,066	1,259,172
Deferred revenue (Note 4)	200	-	200	-
Compensated absences due within one year (Note 9)	783,813	96,042	879,855	24,759
Debt obligations due within one year (Note 9)	720,628	2,167,785	2,888,413	2,145,000
Noncurrent liabilities:				
Compensated absences due in more than one year (Note 9)	423,449	24,011	447,460	6,190
Debt obligations due in more than one year (Note 9)	5,553,620	30,855,474	36,409,094	24,725,000
<b>Total liabilities</b>	<b>10,543,765</b>	<b>34,842,591</b>	<b>45,386,356</b>	<b>29,285,054</b>
<b>Net Assets</b>				
Invested in capital assets - Net of related debt	57,538,046	27,876,591	85,414,637	3,909,676
Restricted:				
Streets and highways	1,322,000	-	1,322,000	-
Debt service	947	6,603,706	6,604,653	-
Capital purposes	1,797,490	-	1,797,490	-
Grants	1,010,174	-	1,010,174	-
Other purposes	642,874	-	642,874	-
Unrestricted	5,070,727	5,568,215	10,638,942	7,393,591
<b>Total net assets</b>	<b>\$ 67,382,258</b>	<b>\$ 40,048,512</b>	<b>\$ 107,430,770</b>	<b>\$ 11,303,267</b>

The Notes to Financial Statements are an  
Integral Part of this Statement.

# City of Romulus, Michigan

		Program Revenues		
		Charges for	Operating	Capital Grants
	Expenses	Services	Grants and	and
			Contributions	Contributions
<b>Functions/Programs</b>				
Primary government:				
Governmental activities:				
General government	\$ 4,628,044	\$ 1,093,280	\$ -	\$ -
Public safety	12,458,810	3,957,856	1,289,893	240
Public works	10,530,019	1,845,575	1,633,141	6,030,656
Health and welfare	233,175	-	-	-
Community and economic development	129,016	-	13,081	-
Recreation and culture	1,809,754	471,604	-	-
Interest on long-term debt	167,290	-	-	-
Total governmental activities	29,956,108	7,368,315	2,936,115	6,030,896
Business-type activities - Water and sewer	12,325,841	10,168,591	57,162	1,267,914
Total primary government	<u>\$ 42,281,949</u>	<u>\$ 17,536,906</u>	<u>\$ 2,993,277</u>	<u>\$ 7,298,810</u>
Component units:				
Tax Increment Financing Authority	\$ 2,847,000	\$ -	\$ -	\$ 135,542
Downtown Development Authority	503,151	-	-	398,340
Economic Development Corporation	560	-	-	-
Total component units	<u>\$ 3,350,711</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 533,882</u>
General revenue:				
Property taxes:				
City				
Sanitation				
Street lighting				
EPA				
Component unit				
State-shared revenues				
Unrestricted investment earnings				
Miscellaneous				
<b>Change in Net Assets</b>				
<b>Net Assets - Beginning of year</b>				
<b>Net Assets - End of year</b>				

**Statement of Activities**  
**Year Ended June 30, 2008**

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	
\$ (3,534,764)	\$ -	\$ (3,534,764)	\$ -
(7,210,821)	-	(7,210,821)	-
(1,020,647)	-	(1,020,647)	-
(233,175)	-	(233,175)	-
(115,935)	-	(115,935)	-
(1,338,150)	-	(1,338,150)	-
(167,290)	-	(167,290)	-
(13,620,782)	-	(13,620,782)	-
-	(832,174)	(832,174)	-
(13,620,782)	(832,174)	(14,452,956)	-
-	-	-	(2,711,458)
-	-	-	(104,811)
-	-	-	(560)
-	-	-	(2,816,829)
10,753,511	-	10,753,511	-
997,999	-	997,999	-
415,956	-	415,956	-
-	2,125,251	2,125,251	-
-	-	-	6,379,523
3,644,472	-	3,644,472	-
744,548	371,817	1,116,365	651,853
1,203,516	88,945	1,292,461	-
4,139,220	1,753,839	5,893,059	4,214,547
63,243,038	38,294,673	101,537,711	7,088,720
<b>\$ 67,382,258</b>	<b>\$ 40,048,512</b>	<b>\$ 107,430,770</b>	<b>\$ 11,303,267</b>

# City of Romulus, Michigan

## Governmental Funds Balance Sheet June 30, 2008

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Cash and investments	\$ 4,457,607	\$ 3,288,886	\$ 7,746,493
Receivables - Net	1,533,879	1,253,513	2,787,392
Prepaid costs and other assets	216,720	-	216,720
Due from other funds (Note 6)	-	12,763	12,763
Accounts receivable from component units (Note 6)	379,696	275	379,971
Due from other governmental units	1,266,492	266,158	1,532,650
Inventories	30,767	112,453	143,220
Total assets	<u>\$ 7,885,161</u>	<u>\$ 4,934,048</u>	<u>\$ 12,819,209</u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ 656,320	\$ 410,666	\$ 1,066,986
Accrued and other liabilities	749,852	146,846	896,698
Due to other funds (Note 6)	12,763	-	12,763
Accounts payable to component units (Note 6)	14,040	1,019	15,059
Advances from component units (Note 6)	-	156,505	156,505
Due to other governmental units	818,066	-	818,066
Deferred revenue (Note 4)	1,570,209	1,183,090	2,753,299
Total liabilities	3,821,250	1,898,126	5,719,376
<b>Fund Balances</b>			
Reserved (Note 10)	35,478	1,053,573	1,089,051
Unreserved - Designated for subsequent year's expenditures -			
Reported in:			
General Fund	2,218,407	-	2,218,407
Special Revenue Funds	-	943,113	943,113
Debt Service Funds	-	500	500
Unreserved - Undesignated:			
General Fund	1,810,026	-	1,810,026
Special Revenue Funds	-	768,238	768,238
Debt Service Funds	-	447	447
Capital Projects Fund	-	270,051	270,051
Total fund balances	<u>4,063,911</u>	<u>3,035,922</u>	<u>7,099,833</u>
Total liabilities and fund balances	<u>\$ 7,885,161</u>	<u>\$ 4,934,048</u>	<u>\$ 12,819,209</u>

# City of Romulus, Michigan

## **Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets June 30, 2008**

<b>Fund Balances - Total Governmental Funds</b>	<b>\$ 7,099,833</b>
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	61,383,215
Special assessment and state-shared revenue receivables are expected to be collected over the next several years and are not available to pay current year expenditures	1,471,513
Grant revenue and delinquent personal property tax not collected within 60 days of year end are recognized as revenue in the statement of net assets, but shown as deferred revenue in the funds	1,281,586
Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:	
Compensated absences	(1,148,478)
Long-term debt and accrued interest	(6,060,688)
Internal Service Funds are also included as governmental activities	<u>3,355,277</u>
<b>Net Assets of Governmental Activities</b>	<b><u>\$ 67,382,258</u></b>

# City of Romulus, Michigan

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2008

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenue</b>			
Property taxes	\$ 10,766,183	\$ 1,411,293	\$ 12,177,476
Licenses and permits	1,676,612	-	1,676,612
Federal sources	274,533	562,106	836,639
Intergovernmental revenues	3,870,922	1,488,369	5,359,291
Charges for services	1,734,699	279,374	2,014,073
Fines and forfeitures	3,625,828	579,452	4,205,280
Investment income	579,796	134,424	714,220
Other	258,846	678,790	937,636
Total revenue	22,787,419	5,133,808	27,921,227
<b>Expenditures</b>			
Current:			
Legislative	74,981	-	74,981
General government	6,325,050	178,073	6,503,123
Public safety	13,103,858	672,232	13,776,090
Public works	215,683	2,907,396	3,123,079
Health and welfare	518,668	-	518,668
Recreation and culture	1,086,318	951,038	2,037,356
Debt service	-	568,377	568,377
Total expenditures	21,324,558	5,277,116	26,601,674
<b>Excess of Revenues Over (Under) Expenditures</b>	1,462,861	(143,308)	1,319,553
<b>Other Financing Sources (Uses)</b>			
Transfers in	30,241	1,064,147	1,094,388
Transfers out	(449,050)	(735,388)	(1,184,438)
Total other financing sources (uses)	(418,809)	328,759	(90,050)
<b>Net Change in Fund Balances</b>	1,044,052	185,451	1,229,503
<b>Fund Balances - Beginning of year</b>	3,019,859	2,850,471	5,870,330
<b>Fund Balances - End of year</b>	<u>\$ 4,063,911</u>	<u>\$ 3,035,922</u>	<u>\$ 7,099,833</u>



# City of Romulus, Michigan

---

## **Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2008**

<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$ 1,229,503</b>
---	---------------------

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are recorded as assets	773,972
Capital contributions from DDA and outside developers are not a current financial resource	6,030,656
Depreciation on capital assets reported on governmental funds report as capital outlays expenditures	(3,831,940)
Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end	(82,429)
Revenue reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds (GASB No. 33)	(240,860)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	486,851
Increase in accumulated employee sick and vacation pay is recorded when taken in the statement of activities	(59,311)
Internal Service Funds are also included as governmental activities	<u>(167,222)</u>

<b>Change in Net Assets of Governmental Activities</b>	<b><u>\$ 4,139,220</u></b>
--	----------------------------

# City of Romulus, Michigan

## Proprietary Funds Statement of Net Assets June 30, 2008

	Enterprise Fund - Water and Sewer Fund	Internal Service Funds
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 2,610,165	\$ 1,260,949
Receivables - Net	3,459,261	-
Due from other governmental units	390,442	-
Inventories and prepaid expenses	83,278	46,334
Total current assets	6,543,146	1,307,283
Noncurrent assets:		
Restricted assets	7,960,896	-
Other assets	176,538	-
Capital assets:		
Assets not being depreciated	802,343	-
Assets being depreciated	59,408,180	2,429,079
Total noncurrent assets	68,347,957	2,429,079
Total assets	74,891,103	3,736,362
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	875,965	94,249
Accounts payable to component units (Note 6)	44,881	-
Accrued and other liabilities	724,671	14,492
Customer deposits payable	53,762	-
Current portion of compensated absences	96,042	47,027
Current portion of long-term debt	2,167,785	213,560
Total current liabilities	3,963,106	369,328
Noncurrent liabilities:		
Provision for compensated absences - Net of current portion	24,011	11,757
Long-term debt - Net of current portion	30,855,474	-
Total noncurrent liabilities	30,879,485	11,757
Total liabilities	34,842,591	381,085
<b>Net Assets</b>		
Invested in capital assets - Net of related debt	27,876,591	2,215,519
Restricted for debt service	6,603,706	-
Unrestricted	5,568,215	1,139,758
Total net assets	<u>\$ 40,048,512</u>	<u>\$ 3,355,277</u>

# City of Romulus, Michigan

## Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2008

	Enterprise Fund - Water and Sewer Fund	Internal Service Funds
<b>Operating Revenue</b>		
Charges for services	\$ 10,005,644	\$ 2,883,075
Federal sources	57,162	-
Other charges for services	173,490	9,023
Total operating revenue	10,236,296	2,892,098
<b>Operating Expenses</b>		
Administrative charges	722,900	-
Salaries	1,391,989	590,685
Sewer and water disposal	4,727,109	-
Operating supplies	112,495	34,851
Repairs and maintenance	9,675	331,575
Gas and oil	-	379,163
Insurance	103,860	830,129
Fringe benefits	755,611	235,411
Equipment rental	523,667	-
Miscellaneous	31,171	12,670
Depreciation	1,707,280	623,795
Contractual services	180,601	81,703
Claims and legal	-	46,322
Bad debt expense	742,100	-
Total operating expenses	11,008,458	3,166,304
<b>Operating Loss</b>	(772,162)	(274,206)
<b>Nonoperating Revenue (Expenses)</b>		
Property taxes	2,125,251	-
Investment income	371,817	32,317
Interest expense	(996,990)	(15,383)
Debt service charges	78,402	-
Loss on disposal of assets	(320,393)	-
Total nonoperating revenue	1,258,087	16,934
<b>Change in Net Assets - Before capital contributions and transfers</b>	485,925	(257,272)
<b>Capital Contributions</b>	1,267,914	-
<b>Transfers - Transfers from other funds</b>	-	90,050
<b>Increase (Decrease) in Net Assets</b>	1,753,839	(167,222)
<b>Net Assets - Beginning of year</b>	38,294,673	3,522,499
<b>Net Assets - End of year</b>	<u>\$ 40,048,512</u>	<u>\$ 3,355,277</u>

The Notes to Financial Statements are an  
Integral Part of this Statement.

# City of Romulus, Michigan

## Proprietary Funds Statement of Cash Flows Year Ended June 30, 2008

	Enterprise Fund - Water and Sewer Fund	Internal Service Funds
<b>Cash Flows from Operating Activities</b>		
Receipts from customers	\$ 8,696,854	\$ 2,914,671
Payments to suppliers	(6,614,902)	(1,020,611)
Payments to employees	(2,195,101)	(1,468,634)
Net cash (used in) provided by operating activities	(113,149)	425,426
<b>Cash Flows from Noncapital Financing Activities</b> - Transfer in	-	90,050
<b>Cash Flows from Capital and Related Financing Activities</b>		
Proceeds from property tax levy - Restricted for debt service	2,125,251	-
Payments to County from Debt Service Fund	(1,812,821)	-
Principal paid on long-term debt	(230,000)	(204,926)
Interest paid on long-term debt	(996,990)	(15,383)
Debt service charges	78,402	-
Purchase of capital assets	(319,320)	(158,121)
Net cash used in capital and related financing activities	(1,155,478)	(378,430)
<b>Cash Flows from Investing Activities</b> - Investment income	371,817	32,317
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	(896,810)	169,363
<b>Cash and Cash Equivalents</b> - Beginning of year	11,467,871	1,091,586
<b>Cash and Cash Equivalents</b> - End of year	<b>\$ 10,571,061</b>	<b>\$ 1,260,949</b>
<b>Balance Sheet Classification of Cash and Cash Equivalents</b>		
Cash and investments	\$ 2,610,165	\$ 1,260,949
Restricted investments	7,960,896	-
Total cash and cash equivalents	<b>\$ 10,571,061</b>	<b>\$ 1,260,949</b>
<b>Reconciliation of Operating Loss to Net Cash from Operating Activities</b>		
Operating loss	\$ (772,162)	\$ (274,206)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation	1,707,280	623,795
Amortization of bond issuance costs	9,807	-
Bad debt expense	742,100	-
Changes in assets and liabilities:		
Receivables	(1,404,422)	-
Due from other funds	-	22,573
Due from other governmental units	(135,020)	-
Inventory	(8,548)	7,626
Accounts payable	(204,683)	42,525
Accrued and other liabilities	(47,501)	3,113
Net cash (used in) provided by operating activities	<b>\$ (113,149)</b>	<b>\$ 425,426</b>

**Noncash Capital and Related Financing Activities** - During the year, \$1,267,914 of water and sewer lines were donated to the City by developers and other governmental units. In addition, the County issued completion bonds for the Downriver Sewage Treatment System. The City has recorded its share of the debt and related utility improvements in the amount of \$2,546,054 at June 30, 2008.

The Notes to Financial Statements are an  
Integral Part of this Statement.

# City of Romulus, Michigan

## Fiduciary Funds Statement of Net Assets June 30, 2008

	Pension and Other Employee Benefits Trust Retirees' Insurance Benefits Fund	Agency Funds
<b>Assets</b>		
Cash and investments	\$ 2,366,077	\$ 3,846,647
Accounts receivable	79,848	500
Due from other governmental units	-	21,624
Total assets	2,445,925	<u><u>\$ 3,868,771</u></u>
<b>Liabilities</b>		
Due to other governmental units	-	\$ 440,610
Accrued and other liabilities	-	3,428,161
Total liabilities	-	<u><u>\$ 3,868,771</u></u>
<b>Net Assets - Held in trust for employee benefits</b>	<u><u>\$ 2,445,925</u></u>	

# City of Romulus, Michigan

## **Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2008**

	Pension and Other Employee Benefits Trust Retirees' Insurance Benefits Fund
<b>Additions</b>	
Investment income:	
Interest income	\$ 56,289
Net increase in fair value of investments	<u>35,457</u>
Total investment income	91,746
Contributions - Employer	<u>1,119,013</u>
Total additions	1,210,759
<b>Deductions - Benefit payments</b>	<u>952,846</u>
<b>Net Increase in Net Assets Held for Retirees' Insurance Benefits</b>	257,913
<b>Net Assets Held in Trust for Retiree Insurance Benefits</b>	
Beginning of year	<u>2,188,012</u>
End of year	<u><u>\$ 2,445,925</u></u>

# City of Romulus, Michigan

## Component Units Statement of Net Assets (Deficit) June 30, 2008

	Tax Increment Finance Authority	Downtown Development Authority	Economic Development Corporation	Totals
<b>Assets</b>				
Cash and investments	\$ 11,599,750	\$ 251,513	\$ 379	\$ 11,851,642
Receivables:				
Interest	152,059	-	-	152,059
Property taxes	60,000	-	-	60,000
Due from other governmental units	28,332	2,312	-	30,644
Receivable from primary government (Note 6)	44,881	15,059	-	59,940
Advances to primary government (Note 6)	156,505	-	-	156,505
Prepaid expenses	189,611	-	-	189,611
Other assets	1,028,244	-	-	1,028,244
Capital assets:				
Assets not being depreciated	2,992,861	171,878	-	3,164,739
Assets being depreciated	23,701,218	193,719	-	23,894,937
Total assets	39,953,461	634,481	379	40,588,321
<b>Liabilities</b>				
Accounts payable	629,963	4,933	-	634,896
Accrued and other liabilities	65,732	2,613	-	68,345
Retainage payable	41,721	-	-	41,721
Payable to primary government (Note 6)	379,971	-	-	379,971
Due to other governmental units	1,257,099	2,073	-	1,259,172
Compensated absences:				
Due within one year	18,416	6,343	-	24,759
Due in more than one year	4,604	1,586	-	6,190
Bonds payable:				
Due within one year	1,635,000	510,000	-	2,145,000
Due in more than one year	21,515,000	3,210,000	-	24,725,000
Total liabilities	25,547,506	3,737,548	-	29,285,054
<b>Net Assets (Deficit)</b>				
Invested in capital assets - Net of related debt	3,544,079	365,597	-	3,909,676
Unrestricted	10,861,876	(3,468,664)	379	7,393,591
Total net assets (deficit)	\$ 14,405,955	\$ (3,103,067)	\$ 379	\$ 11,303,267

# City of Romulus, Michigan

	Expenses	Program Revenues		
		Charges for	Operating Grants/ Contributions	Capital Grants/ Contributions
		Services		
Tax Increment Finance Authority - Public works	\$ 2,847,000	\$ -	\$ -	\$ 135,542
Downtown Development Authority - Public works	503,151	-	-	398,340
Economic Development Corporation - Community development	560	-	-	-
Total governmental activities	<u>\$ 3,350,711</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 533,882</u>

## General revenues:

Property taxes

Interest income and other

## Change in Net Assets

**Net Assets (Deficit)** - Beginning of year

**Net Assets (Deficit)** - End of year



**Component Units  
Statement of Activities  
Year Ended June 30, 2008**

Net (Expense) Revenue and Changes in Net Assets			
Tax Increment Finance Authority	Downtown Development Authority	Economic Development Corporation	Total
\$ (2,711,458)	\$ -	\$ -	\$ (2,711,458)
-	(104,811)	-	(104,811)
-	-	(560)	(560)
(2,711,458)	(104,811)	(560)	(2,816,829)
5,641,629	737,894	-	6,379,523
637,306	14,535	12	651,853
3,567,477	647,618	(548)	4,214,547
10,838,478	(3,750,685)	927	7,088,720
<b>\$ 14,405,955</b>	<b>\$ (3,103,067)</b>	<b>\$ 379</b>	<b>\$ 11,303,267</b>

### **Note I - Summary of Significant Accounting Policies**

The accounting policies of the City of Romulus, Michigan (the “City”) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used:

#### **Reporting Entity**

The City of Romulus, Michigan is governed by an elected seven-member council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City’s operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

#### **Blended Component Units**

The City of Romulus Building Authority is governed by a five-member board that is appointed by the City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance and construct the City’s public buildings.

#### **Discretely Presented Component Units**

The following component units are reported within the component units column to emphasize that they are legally separate from the City.

The Economic Development Corporation (the “Corporation”) was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. The Corporation’s governing body, which consists of nine individuals, is appointed by the mayor with the approval of the City Council.

The Downtown Development Authority (the “Development Authority”) was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Development Authority’s governing body, which consists of seven individuals, is appointed by the mayor with the approval of the City Council. In addition, the Development Authority’s budget is subject to approval by the City Council.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

The Tax Increment Finance Authority (the "Finance Authority") was created to promote growth. The Finance Authority's governing body, which consists of 13 individuals, is appointed by the mayor with the approval of the City Council. In addition, the Finance Authority's budget is subject to approval by the City Council.

The Brownfield Redevelopment Authority (the "Brownfield Authority") was created to promote growth by encouraging the correction of environmental damage. The Brownfield Authority's governing body, which consists of five individuals, is appointed by the mayor with the approval of the City Council. In addition, the Brownfield Authority's budget is subject to approval by the City Council. There has been no activity in the Brownfield Authority to date.

Separate financial statements for the above discretely presented component units are not prepared.

The City of Romulus Housing Authority (the "Housing Authority") has not been included in the City's reporting entity because the City lacks the ability to impose its will on the Housing Authority under the guidelines of Governmental Accounting Standards Board Statement Number 14. This entity is subject to separate audit requirements.

#### **Jointly Governed Organizations**

Jointly governed organizations are discussed in Note 16.

#### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period. Conversely, federal grant reimbursements will be collected after the period availability; therefore, receivables have been recorded for these, along with a "deferred revenue" liability. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

The City reports the following major governmental fund:

**General Fund** - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The City reports the following major proprietary fund:

**Water and Sewer Fund** - The Water and Sewer Fund is used to account for the activities of the water distribution systems and sewage collection system.

Additionally, the City reports the following fund types:

**Internal Service Funds** - Internal Service Funds account for major vehicle and equipment purchases and maintenance, as well as risk management services provided to other departments of the City on a cost reimbursement basis.

**Pension and Other Employee Benefit Trust Funds** - The Pension and Other Employee Benefit Trust Funds account for the activities of the Retirees' Insurance Benefit Fund, which accumulates resources for postretirement health benefit payments to qualified retirees.

**Agency Funds** - The Agency Funds are used to account for assets held by the City in a trustee capacity for others. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements, except for such activity between the governmental and business-type funds. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City's policy is to first apply restricted resources.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's proprietary funds relates to charges to customers for services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost for services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

#### **Assets, Liabilities, and Net Assets or Equity**

**Bank Deposits and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value, based on quoted market prices. Pooled investment income from the General Fund is generally allocated to each fund using a weighted average of balance for the principal.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts

**Property Taxes** - Properties are assessed as of December 31 of each year. The related property taxes are billed on July 1 of the following year and became a lien at that time. These taxes are due on September 30 with the final collection date of February 28 before they are added to the county tax rolls, at which time penalties and interest are assessed.

### Note 1 - Summary of Significant Accounting Policies (Continued)

The 2007 taxable valuation of the City totaled \$1,364,417,124, on which ad valorem taxes levied consisted of 9.4063 mills for the City's operating purposes, .9500 mills for sanitation, and 1.2092 mills for an EPA judgment levy. The ad valorem taxes levied raised approximately \$10.0 million for operations, \$1.0 million for sanitation, and \$1.6 million for the EPA judgment levy. These amounts are recognized in the respective General Fund, Special Revenue Fund, and Water and Sewer Fund financial statements as tax revenue.

**Inventories and Prepaid Items** - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

**Restricted Assets** - Restricted asset information is included in Note 7.

**Capital Assets** - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$1,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Land improvements	20 years
Infrastructure	20 years
Utility system	50 years
Meters	50 years
Buildings and improvements	20 to 33 years
Equipment and machinery	3 to 10 years
Vehicles	3 to 15 years

### **Note I - Summary of Significant Accounting Policies (Continued)**

**Compensated Absences (Vacation and Sick Leave)** - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. Employees may receive payment of the accumulated sick leave and vacation balance at the rate determined by union contracts, which varies from unit to unit. A liability is accrued when incurred in the government-wide and proprietary fund financial statements.

**Long-term Obligations** - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.



### **Note 2 - Stewardship, Compliance, and Accountability**

The City is legally subject to the budgetary control requirements of State of Michigan P.A. 621 of 1978 (the Uniform Budgeting Act), as amended. The following statements represent a brief synopsis of the major provisions of the Act:

1. Budgets must be adopted for the General Fund and Special Revenue Funds.
2. The budgets must be balanced. The balanced budget may include a contribution to or appropriation from fund balance.
3. The budgets must be amended when necessary.
4. Debt cannot be entered into unless permitted by law.
5. Expenditures cannot exceed budget appropriations.
6. Expenditures cannot be made unless authorized in the budget.
7. Public hearings must be held before budget adoptions.

The City adopts its budget on an activity basis (department), which is in accordance with the State's legal requirements and is the level of classification detail at which expenditures may not legally exceed appropriations.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In February, the mayor holds a meeting with all departments. At this time, the finance department provides the necessary budget materials with instructions and discusses intended strategies.
2. In March, the mayor and finance director hold meetings with each department to review proposed spending and activities. Working with the finance director, alternative approaches are sought to provide better services and reduce costs. Departmental recommendations are refined by the mayor according to overall City needs and estimated available revenue.
3. The City Charter provides that the mayor must submit his recommendations on the upcoming year's budget on or before the first day of April. With his line item recommendations, the mayor summarizes major policy and concerns, along with his proposed tax levy and the estimated revenue generated in his transmittal letter located in the supplemental schedules section of this document.

### **Note 2 - Stewardship, Compliance, and Accountability (Continued)**

4. The City Council conducts budget hearings with the mayor and the finance director during the month of April. Citizens are given an opportunity to comment on proposed spending at a City Council public hearing, which is generally held on the first or second Monday in May. Prior to this public hearing, the proposed budget is available to the public in the City clerk's office for inspection for a period of not less than three weeks. The City Council then makes final adjustments to the proposed budget, according to the concerns developed during its public hearings. Under the Charter, the City Council must adopt the final budget for the ensuing fiscal year on or before May 15 of each year.
5. The City budget is adopted by resolution, which incorporates the line items in the mayor's recommendations, amendments, and refinements as developed by changing events and concerns established in the City Council hearing process, and policy guidelines for expenditure of funds. A vote of four of the seven City Council members serving is necessary for budget adoption. The Mayor has item veto authority, which he may exercise subsequent to budget adoption.

Budget appropriations lapse at year end; encumbrances are not included as expenditures. Encumbrances outstanding of \$34,900 at June 30, 2008 have been reappropriated into next year's budget. During the current year, the budget was amended in a legally permissible manner. A comparison of the budget with statements of actual revenues and expenditures, including budget variances, for the General Fund is presented as required supplemental information. Budgetary comparisons for the Special Revenue Funds can be obtained at City Hall.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America, with the following exceptions:

- Operating transfers have been included in the "revenue" and "expenditures" categories rather than as "other financing sources (uses)."
- Reimbursements from other funds have been included in revenue, rather than as a reduction of expenditures.

There were no significant budget overruns at June 30, 2008.

# City of Romulus, Michigan

## Notes to Financial Statements June 30, 2008

### Note 2 - Stewardship, Compliance, and Accountability (Continued)

**State Construction Code Act** - The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus or shortfall is as follows:

Shortfall at July 1, 2007		\$ (1,136,140)
Current year building permit revenue		1,486,282
Related expenses:		
Direct costs	\$ 1,469,678	
Estimated indirect costs	<u>105,354</u>	
Total construction code expenses		<u>1,575,032</u>
Cumulative shortfall at June 30, 2008		<u>\$ (1,224,890)</u>

**Fund Deficits** - There was a fund deficit in the Romulus Athletic Center Fund of \$361,942 at June 30, 2008. The component units are presented on the full accrual basis in the basic financial statements, resulting in deficits on that basis in the Downtown Development Authority.

### Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. A local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City has designated 31 banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all of the options discussed above.

### **Note 3 - Deposits and Investments (Continued)**

The above-mentioned City investment policy applies to all financial assets of the City except for its Pension and Other Employee Benefit Trust Fund, which is organized and administered separately. Investments are made pursuant to provisions of the Public Employee Retirement System Investment Act of 1965. Michigan Public Act 314 of 1965 and Michigan Public Act 149 of 1999, as amended, authorize investments in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk.

At year end, the City had \$828,296 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. In addition, the City's component units had \$9,480,916 of bank deposits that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**Interest Rate Risk** - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. At year end, the City had \$20,794 invested in U.S. government investment pools with a weighted average maturity of 49.88 months.

**Credit Risk** - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City's investment policy does not further limit its investment choices.

As of year end, the City had \$15,588,996 invested in mutual funds and negotiable CDs that were unrated, \$20,794 in mutual funds with an AAA rating from Standards & Poor's, and \$2,033,482 in mutual funds with an Aaa rating from Moody's. The City's component units had \$2,640,529 invested in mutual funds that were unrated and \$308 invested in mutual funds with an AA+ rating from Standard & Poor's.

# City of Romulus, Michigan

## Notes to Financial Statements June 30, 2008

### Note 4 - Receivables

Receivables as of year end for the City's individual major funds, the nonmajor funds, and fiduciary funds, in the aggregate, are as follows:

	General Fund	Nonmajor Governmental Funds	Enterprise Fund	Fiduciary Fund	Total
Receivables:					
Taxes	\$ 1,174,411	\$ 113,433	\$ 304,857	\$ -	\$ 1,592,701
Accounts	359,468	70,624	3,154,404	80,348	3,664,844
Special assessment	-	1,069,456	-	-	1,069,456
Net receivables	<u>\$ 1,533,879</u>	<u>\$ 1,253,513</u>	<u>\$ 3,459,261</u>	<u>\$ 80,348</u>	<u>\$ 6,327,001</u>

The City's Water and Sewer Fund has recorded a receivable for approximately \$2.1 million related to a major customer's billings for sewage and glycol services, of which the customer is disputing the liability. Due to the uncertain nature of the receivable, the City's Water and Sewer Fund has recorded an allowance for \$1.6 million.

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable	Unearned
Special assessments	\$ 1,069,457	\$ -
Delinquent personal property tax	1,281,586	-
Receivable from other governmental units	402,056	-
Grant payment received prior to meeting all eligibility requirements	-	200
Total	<u>\$ 2,753,099</u>	<u>\$ 200</u>

# City of Romulus, Michigan

## Notes to Financial Statements June 30, 2008

### Note 5 - Capital Assets

Capital asset activity of the City's governmental activities, business-type activities, and component units was as follows:

	Balance July 1, 2007	Additions	Deletions	Transfers	Balance June 30, 2008
Governmental activities:					
Capital assets not being depreciated:					
Land	\$ 5,458,932	\$ -	\$ -	\$ -	\$ 5,458,932
Construction in progress	2,559,549	194,695	-	(2,009,466)	744,778
Subtotal	8,018,481	194,695	-	(2,009,466)	6,203,710
Capital assets being depreciated:					
Land improvements	889,087	-	-	-	889,087
Buildings and improvements	14,344,442	4,781,347	-	374,290	19,500,079
Vehicles	6,400,573	68,016	(17,817)	-	6,450,772
Equipment and machinery	7,308,366	656,826	-	-	7,965,192
Infrastructure	58,403,791	1,261,865	-	1,635,176	61,300,832
Subtotal	87,346,259	6,768,054	(17,817)	2,009,466	96,105,962
Accumulated depreciation:					
Land improvements	432,901	28,480	-	-	461,381
Buildings and improvements	3,923,254	320,947	-	-	4,244,201
Vehicles	3,922,519	452,114	(17,817)	-	4,356,816
Equipment and machinery	5,437,981	594,276	-	-	6,032,257
Infrastructure	20,342,805	3,059,918	-	-	23,402,723
Subtotal	34,059,460	4,455,735	(17,817)	-	38,497,378
Net capital assets being depreciated	53,286,799	2,312,319	-	2,009,466	57,608,584
Net capital assets	\$ 61,305,280	\$ 2,507,014	\$ -	\$ -	\$ 63,812,294

# City of Romulus, Michigan

## Notes to Financial Statements June 30, 2008

### Note 5 - Capital Assets (Continued)

	Balance July 1, 2007	Additions	Deletions	Transfers	Balance June 30, 2008
Business-type activities:					
Capital assets not being depreciated:					
Land	\$ 88,065	\$ -	\$ -	\$ -	\$ 88,065
Construction in progress	6,660,311	838,309	(122,549)	(6,661,793)	714,278
Subtotal	6,748,376	838,309	(122,549)	(6,661,793)	802,343
Capital assets being depreciated:					
Buildings	785,130	-	(785,130)	-	-
Utility system	73,791,457	3,043,397	-	6,661,793	83,496,647
Meters	1,512,938	188,595	-	-	1,701,533
Equipment	291,619	12,987	-	-	304,606
Subtotal	76,381,144	3,244,979	(785,130)	6,661,793	85,502,786
Accumulated depreciation:					
Buildings	587,286	-	(587,286)	-	-
Utility system	23,206,471	1,624,411	-	-	24,830,882
Meters	929,854	59,572	-	-	989,426
Equipment	251,001	23,297	-	-	274,298
Subtotal	24,974,612	1,707,280	(587,286)	-	26,094,606
Net capital assets being depreciated	51,406,532	1,537,699	(197,844)	6,661,793	59,408,180
Net capital assets	\$ 58,154,908	\$ 2,376,008	\$ (320,393)	\$ -	\$ 60,210,523

# City of Romulus, Michigan

## Notes to Financial Statements June 30, 2008

### Note 5 - Capital Assets (Continued)

	Balance July 1, 2007	Additions	Deletions	Transfers	Balance June 30, 2008
Component units:					
Downtown Development Authority:					
Capital assets not being depreciated:					
Land	\$ 162,694	\$ -	\$ -	\$ -	\$ 162,694
Construction in progress	9,184	-	-	-	9,184
Subtotal	171,878	-	-	-	171,878
Capital assets being depreciated:					
Buildings	233,859	-	-	-	233,859
Building improvements	-	6,250	-	-	6,250
Accumulated depreciation:					
Buildings	23,126	23,126	-	-	46,252
Building improvements	-	138	-	-	138
Net capital assets - Downtown Development Authority	382,611	(17,014)	-	-	365,597
Tax Increment Finance Authority:					
Capital assets not being depreciated:					
Land	2,965,673	-	-	-	2,965,673
Construction in progress	16,582,772	7,071,049	-	(23,626,633)	27,188
Subtotal	19,548,445	7,071,049	-	(23,626,633)	2,992,861
Capital assets being depreciated:					
Buildings	-	-	-	23,107,000	23,107,000
Building improvements	-	-	-	11,880	11,880
Machinery and equipment	-	74,585	-	507,753	582,338
Net capital assets - Tax Increment Finance Authority	19,548,445	7,145,634	-	-	26,694,079
Net capital assets - Component units	\$ 19,931,056	\$ 7,128,620	\$ -	\$ -	\$ 27,059,676



# City of Romulus, Michigan

## Notes to Financial Statements June 30, 2008

### Note 5 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 227,024
Public safety	434,377
Public works	3,070,497
Recreation and culture	100,042
Internal Service Fund depreciation is charged to the various functions based on their usage of the asset	<u>623,795</u>

Total governmental activities \$ 4,455,735

Business-type activities - Water and sewer \$ 1,707,280

### Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

#### Due to/from Other Funds

Receivable Fund	Payable Fund	Amount
Nonmajor governmental funds	Primary government - General Fund	\$ 12,763

#### Due to/from Primary Government and Component Units

Primary government - General Fund	Component unit - Tax Increment Finance Authority	\$ 379,696
-----------------------------------	--	------------

Primary government - Other nonmajor governmental funds	Component unit - Tax Increment Finance Authority	<u>275</u>
--	--	------------

Total primary government \$ 379,971

Component unit - Downtown Development Authority	Primary government - General Fund	\$ 14,040
	Primary government - Other nonmajor funds	<u>1,019</u>

Total Downtown Development Authority \$ 15,059

Component unit - Tax Increment Finance Authority	Primary government - Water and Sewer Fund (major fund)	<u>\$ 44,881</u>
--	--	------------------

#### Advances Due to/from Primary Government and Component Units

Component unit - Tax Increment Finance Authority	Primary government - Other nonmajor governmental funds	<u>\$ 156,505</u>
--	--	-------------------

# City of Romulus, Michigan

## Notes to Financial Statements June 30, 2008

### Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund balances arise from the centralized disbursement system as well as the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

#### Interfund Transfers

		Nonmajor Governmental	
Transfers In	General Fund	Funds	Total
Nonmajor governmental funds	\$ 359,000	\$ 705,147	\$ 1,064,147
General Fund	-	30,241	30,241
Internal Service Funds	90,050	-	90,050

The transfers from the General Fund to nonmajor governmental funds were primarily related to the General Fund's portion of debt service expenditures. A transfer was made from the Major Streets Fund to the Beverly Road Fund for construction of a major road. The Sanitation Fund transferred monies to the General Fund as a partial repayment on a transfer made by the General Fund to assist with operational needs in a previous year. At the time of the original transfer, the General Fund was not anticipating repayment. The transfer from the General Fund to the Vehicle and Equipment Internal Service Fund related to capital asset purchases. Remaining transfers were mainly between the City's two Street Funds to redistribute ACT 51 monies from the Major Streets Fund to the Local Street Fund in accordance with a City Council-approved resolution.

### Note 7 - Restricted Assets

Restricted assets at June 30, 2008 consist of the following:

#### Business-type activities:

Cash on deposit at Wayne County	\$ 4,152,857
Cash and investments	<u>3,808,039</u>
Total business-type activities	<u>\$ 7,960,896</u>

# City of Romulus, Michigan

## Notes to Financial Statements June 30, 2008

### Note 7 - Restricted Assets (Continued)

The cash on deposit at Wayne County is being held at Wayne County for County sewage disposal system bonds. These restricted assets resulted from property tax collections and are restricted for debt service payments. Net assets have been restricted for these amounts. Total tax collections received in the current year were \$2,125,251 compared to principal and interest payments of \$2,546,054 on the related debt.

The cash and investments for the business-type activities consist of property tax collections held by the City to pay certain Water and Sewer Fund debt service payments, as well as unspent bond proceeds. Net assets have been restricted for the amounts related to the property tax collections.

### Note 8 - Lease Agreement

The City has entered into a lease agreement as lessee for financing the purchase of various City renovations. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date (see Note 9). The future minimum lease obligations for the years ending June 30, 2009 through June 30, 2015 and the net present value are as follows:

Years Ending June 30	Amount
2009	\$ 182,693
2010	190,001
2011	491,495
2012	491,495
2013	491,495
2014-2015	<u>982,989</u>
Total minimum payments	2,830,168
Less amount representing interest	<u>(464,479)</u>
Present value at June 30, 2008	<u>\$ 2,365,689</u>

# City of Romulus, Michigan

## Notes to Financial Statements June 30, 2008

### Note 9 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the City. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Long-term obligation activity for governmental and business-type activities can be summarized as follows:

	Interest Rate Range	Maturity Date Range	Maturity Payment Range	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental activities:</b>								
General Obligation Bonds:								
Building Authority Bonds - \$2,080,000	2.50%-3.25%	2013	\$215,000-\$270,000	\$ 1,670,000	\$ -	\$ (215,000)	\$ 1,455,000	\$ 220,000
Beverly Road Bond - \$1,650,000	4.00%-5.10%	2015	\$110,000-\$155,000	1,175,000	-	(110,000)	1,065,000	115,000
Installment purchase agreements - \$1,750,064	4.17%-6.30%	2009	\$204,926-\$213,560	418,485	-	(204,925)	213,560	213,560
Capital lease - Honeywell agreement - \$2,499,858	4.29%	2015	\$71,851-\$240,587	2,437,539	-	(71,851)	2,365,688	82,068
Special Assessment Bonds - Beverly Rd. - \$1,650,000	4.00%-5.10%	2021	\$80,000-\$90,000	1,265,000	-	(90,000)	1,175,000	90,000
Compensated absences				1,146,032	61,230	-	1,207,262	783,813
Total governmental activities				<u>\$ 8,112,056</u>	<u>\$ 61,230</u>	<u>\$ (691,776)</u>	<u>\$ 7,481,510</u>	<u>\$ 1,504,441</u>
<b>Business-type activities:</b>								
Wayne County Contractual Obligations - \$41,663,856	1.63%-6.30%	2028	\$31,750-\$2,090,753	\$ 25,520,026	\$ 2,546,054	\$ (1,812,821)	\$ 26,253,259	\$ 1,927,785
Capital Improvement Bonds - Water and Sewer - \$7,000,000	3.5%-5.0%	2027	\$230,000-\$535,000	7,000,000	-	(230,000)	6,770,000	240,000
Compensated absences				117,516	2,537	-	120,053	96,042
Total business-type activities				<u>\$ 32,637,542</u>	<u>\$ 2,548,591</u>	<u>\$ (2,042,821)</u>	<u>\$ 33,143,312</u>	<u>\$ 2,263,827</u>

# City of Romulus, Michigan

## Notes to Financial Statements June 30, 2008

### Note 9 - Long-term Debt (Continued)

Long-term obligation activity for the component units is as follows:

	Interest Rate Range	Maturity Date Range	Maturity Payment Range	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Tax Increment Finance Authority:								
General Obligation Bonds - \$14,070,000	2.00% - 6.75%	2009	\$665,000-\$690,000	\$ 1,355,000	\$ -	\$ (665,000)	\$ 690,000	\$ 690,000
General Obligation Bonds - \$5,445,000	2.50% - 4.30%	2019	\$300,000-\$470,000	4,870,000	-	(300,000)	4,570,000	310,000
General Obligation Bonds - \$18,500,000	4.0% - 5.0%	2027	\$610,000-\$1,355,000	18,500,000	-	(610,000)	17,890,000	635,000
Compensated absences				22,902	118	-	23,020	18,416
Total - Tax Increment Finance Authority				24,747,902	118	(1,575,000)	23,173,020	1,653,416
Downtown Development Authority:								
General Obligation Bonds - \$2,500,000	2.00% - 3.80%	2013	\$180,000-\$235,000	1,425,000	-	(180,000)	1,245,000	185,000
General Obligation Bonds - \$3,400,000	2.50%-3.60%	2014	\$315,000-\$385,000	2,790,000	-	(315,000)	2,475,000	325,000
Compensated absences				4,205	3,724	-	7,929	6,343
Total - Downtown Development Authority				4,219,205	3,724	(495,000)	3,727,929	516,343
Total component units				\$ 28,967,107	\$ 3,842	\$ (2,070,000)	\$ 26,900,949	\$ 2,169,759

Annual debt service requirements to maturity for the above obligations are as follows:

	Governmental Activities			Business-type Activities			Component Units		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2009	\$ 720,628	\$ 248,493	\$ 969,121	\$ 2,167,785	\$ 975,634	\$ 3,143,419	\$ 2,145,000	\$ 1,076,100	\$ 3,221,100
2010	533,013	224,091	757,104	2,232,302	915,063	3,147,365	1,510,000	1,005,681	2,515,681
2011	846,773	201,575	1,048,348	2,292,355	852,397	3,144,752	1,560,000	949,718	2,509,718
2012	879,194	168,072	1,047,266	2,350,679	787,683	3,138,362	1,615,000	889,910	2,504,910
2013	912,370	132,580	1,044,950	2,413,039	720,824	3,133,863	1,675,000	828,635	2,503,635
2014-2018	2,062,270	223,703	2,285,973	12,311,767	2,562,965	14,874,732	7,190,000	3,219,522	10,409,522
2019-2023	320,000	32,640	352,640	6,347,938	1,071,411	7,419,349	6,100,000	1,807,344	7,907,344
2024-2028	-	-	-	2,907,394	276,364	3,183,758	5,075,000	469,464	5,544,464
Total	\$ 6,274,248	\$ 1,231,154	\$ 7,505,403	\$ 33,023,259	\$ 8,162,341	\$ 41,185,600	\$ 26,870,000	\$ 10,246,374	\$ 37,116,374

**Defeased Debt** - During the year ended June 30, 2000, the County of Wayne, Michigan, on behalf of the City, defeased certain Downriver Sewage Disposal System 1994 Series A bonds by placing the proceeds in an irrevocable trust with an escrow agent to provide for all future debt services payments on the 1994 Series A bonds. As a result, the bonds are considered defeased and the liability for the bonds has been removed from the City's Enterprise Fund. At June 30, 2008, \$422,000, representing the City's portion of the bonds outstanding, is considered defeased.

# City of Romulus, Michigan

## Notes to Financial Statements June 30, 2008

### Note 9 - Long-term Debt (Continued)

During the year ended June 30, 2005, the City issued \$2,080,000 in general obligation bonds with interest rates ranging from 2.50 percent to 3.25 percent. The proceeds of these bonds were used to advance refund \$2,205,000 of outstanding Building Authority bonds with an interest rate of 5 percent. The proceeds of the bonds were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the original bonds. As a result, the bonds are considered to be defeased and the liability has been removed from the government-wide statement of net assets. At June 30, 2008, \$1,465,000 of bonds outstanding are considered defeased.

In addition, during the year ended June 30, 2005, the City's Tax Increment Finance Authority issued \$5,445,000 in general obligation bonds with interest rates ranging from 2.5 percent to 4.3 percent. The proceeds of these bonds were used to advance refund \$5,695,000 of outstanding Tax Increment Finance Authority bonds with interest rates ranging from 2.00 percent to 6.75 percent. The proceeds of the bonds were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the original bonds. As a result, the bonds are considered to be defeased and the liability has been removed from the component unit's debt in the statement of net assets. At June 30, 2008, \$4,240,000 of bonds outstanding are considered defeased.

### Note 10 - Reserved/Restricted Fund Balances/Net Assets

Fund balances/net assets have been reserved or restricted for the following purposes:

	General Fund	Nonmajor Governmental Funds	Water and Sewer Fund	Total
Reserved for training grant	\$ 2,615	\$ -	\$ -	\$ 2,615
Reserved for drain maintenance	8,711	-	-	8,711
Reserved for inventory	24,152	46,014	-	70,166
Reserved for grants expenditures	-	1,007,559	-	1,007,559
Restricted for debt service	-	-	6,603,706	6,603,706
Total	<u>\$ 35,478</u>	<u>\$ 1,053,573</u>	<u>\$ 6,603,706</u>	<u>\$ 7,692,757</u>

### **Note 11 - Risk Management**

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical benefit claims and participates in the Michigan Municipal League risk pool for claims relating to employee injuries (workers' compensation) and for claims relating to general liability and property loss. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The City was a member of the Michigan Municipal Risk Management Authority (MMRMA) risk pool program prior to July 1, 1998. MMRMA operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums were paid annually to MMRMA that MMRMA used to pay claims up to the retention limits, the ultimate liability for those claims remains with the City. The City no longer maintains a provision for claims incurred prior to July 1, 1998.

### **Note 12 - Contingencies**

#### **Clean Water Act**

The City has been named as a defendant in a lawsuit alleging violations of the Clean Water Act occurring in the Downriver Sewage Treatment System. Several other communities, including Wayne County, were also named as defendants. Under the terms of the consent decree, the communities are required to undertake construction projects to expand the capacity of the system and eliminate any violations of the Clean Water Act. The estimated total cost of the project is approximately \$344,000,000, with the City's share estimated to be approximately \$47,000,000. The outstanding balance payable at June 30, 2008 was approximately \$26,000,000. The bonds will be paid through a court-ordered judgment levy. In addition, approximately \$32,000,000 of capital improvement bonds were issued in September 2008.

### **Note 12 - Contingencies (Continued)**

#### **Tax Appeals**

The City is a defendant in several tax appeal cases. A major taxpayer of the City has appealed the valuation of a certain class of property. The City has reached a tentative settlement agreement with the taxpayer and prepared its financial statements on that basis. The settlement has been complicated and delayed by the taxpayer's bankruptcy. The City is also involved in a claim asserted by a residential property developer that the increase to its taxable value related to certain infrastructure improvements violates the Michigan Constitution. Since the outcome of this claim is uncertain, the City has not recorded a liability for any potential refund. The City is also a defendant in various other cases. Since the outcome of these matters is also uncertain, the City has not recorded a liability for potential refunds related to these appeals.

#### **Wayne County Airport Authority**

During 2006, the Wayne County Airport Authority (the "Airport Authority") made a claim that it has overpaid glycol disposal charges in the past. The Airport Authority is relying upon a 1973 agreement between the City and Wayne County in which the City agreed to charge 110 percent of the wholesale rate to the Airport Authority. The City's position is that glycol emissions did not exist when this agreement was entered into; therefore, the agreement should not govern these charges and that certain charges were covered by a separate agreement between the City and the Airport Authority. The Airport Authority and the City have other arguments in support of their positions.

In addition, the Wayne County Airport Authority made a claim that it has overpaid sewer charges in the past in 2007. The Airport Authority is relying upon the 1973 agreement noted above between the City and Wayne County in which the City agreed to charge 110 percent of the wholesale rate to the Airport Authority. The City's position is that EPA regulations which required all users of the same classes be charged the same amount and that certain properties were not included in the original agreement. The Airport Authority and the City have other arguments in support of their positions.



### **Note 12 - Contingencies (Continued)**

In both instances, the Airport Authority has been paying the rate billed for a number of years and only recently claimed that it should be paying at the 110 percent rate. In addition, it has been paying its bills at only 110 percent of the wholesale rate even though the City continues to bill at the retail rate. Given the uncertain nature of this matter, the City has recorded an allowance in the Water and Sewer Fund for the amount the City believes may not be recoverable from the Airport Authority.

### **Note 13 - Pension Plan - Michigan Municipal Employees' Retirement System**

**Plan Description** - The City participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers members of the Police Officers Labor Council, International Association of Fire Fighters, the mayor, and the Police Officers Association of Michigan. MERS provides retirement, disability, and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, MI 48917.

**Funding Policy** - The obligation to contribute to and maintain MERS for these employees was established by negotiation with the City's collective bargaining units and requires a contribution from the employees of 5.0 percent of gross wages for Police Officers Labor Council, 5.0 percent of gross wages for Police Officers Association of Michigan, 2.5 percent of gross wages for the International Association of Firefighters, and 5.0 percent from the mayor.

**Annual Pension Costs** - For the year ended June 30, 2008, the City's annual pension cost of \$1,334,460 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2006, using the entry actual age cost method. Significant actuarial assumptions used include (a) an 8.0 percent investment rate of return and (b) projected salary increases of 4.5 percent per year plus a percentage based on an age-related scale to reflect merit, longevity, and promotional salary increases. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The amortization period is 29 years.

# City of Romulus, Michigan

## Notes to Financial Statements June 30, 2008

### Note 13 - Pension Plan - Michigan Municipal Employees' Retirement System (Continued)

**Reserves** - As of June 30, 2008, the plan's contribution reserve has been fully funded as follows:

Legally required reserve - Reserve for employees' contributions      \$ 2,747,988

Three-year trend information is as follows:

	Fiscal Year Ended June 30		
	2006	2007	2008
Annual pension costs (APC)	\$ 1,039,094	\$ 1,189,056	\$ 1,334,460
Percentage of APC contributed	100%	100%	100%
Net pension obligation	None	None	None

	Actuarial Valuation as of December 31		
	2005	2006	2007
Actuarial value of assets	\$ 14,311,754	\$ 15,573,416	\$ 17,031,725
Actuarial accrued liability (entry age) (AAL)	\$ 30,750,328	\$ 32,916,682	\$ 36,686,484
Unfunded AAL (UAAL)	\$ 16,438,574	\$ 17,343,266	\$ 19,654,759
Funded ratio	46.5%	47.3%	46.4%
Covered payroll	\$ 5,186,486	\$ 5,358,087	\$ 5,905,009
UAAL as a percentage of covered payroll	317.0%	323.7%	332.8%

### Note 14 - Defined Contribution Pension Plan

The City provides pension benefits to all groups not covered in the MERS plan through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by labor contracts with the approval of the City Council, the City contributes from 5.0 percent to 9.5 percent of employees' gross earnings and employees contribute 0.5 percent to 5.0 percent of earnings. In accordance with these requirements, the City contributed \$609,878 during the current year and employees contributed \$95,648.

### Note 15 - Postemployment Benefits

The City provides retiree healthcare benefits to eligible employees and their spouses dependents through the City of Romulus Retiree Health Care Plan. Currently, the plan has 322 members (including employees in active service, terminated employees not yet receiving benefits, and retired employees and beneficiaries currently receiving benefits).

This is a single employer defined benefit plan administered by the City. The benefits are provided in accordance with labor contracts and City personnel policies as approved by City Council. The plan does not issue a separate stand-alone financial statement. Administrative costs are paid by the plan through employer contributions.

**Funding Policy** - The labor contracts and City personnel policies as approved by City Council require contributions from employees in certain employee groups. Retiree healthcare costs are recognized when paid by the City on a “pay-as-you-go” basis. The City has no obligation to make contributions in advance of when the insurance premiums are due for payment. For the fiscal year ended June 30, 2008, the City made payments for postemployment health benefit premiums of approximately \$926,000.

The funding progress of the plan as of the most recent valuation date is as follows:

Valuation as of June 30, 2007:

Actuarial value of assets	\$ 2,188,000
Actuarial accrued liability	32,275,721
Unfunded AAL	30,087,721
Funded ratio	6.8%

Approximately \$2.9 million of the actuarial accrued liability at June 30, 2007 relates to the 34<sup>th</sup> District Court.

**Actuarial Methods and Assumptions** - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

### **Note 15 - Postemployment Benefits (Continued)**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2007, actuarial valuation, the individual entry age actuarial cost method was used. The actuarial assumptions included a 8 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 10 percent initially, reduced by decrements to an ultimate rate of 4.5 percent after 10 years. Both rates included a 4.5 percent inflation assumption. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2007 was 30 years.

**Upcoming Reporting Change** - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

### **Note 16 - Joint Venture**

The City is a member of the 34th District Court, which provides services to the City of Romulus, the City of Belleville, and the Townships of Huron, Sumpter, and Van Buren. The City has a two-thirds interest in the revenue of the court and provides the annual funding for its operations. During the year, the City received net revenue from the Court of \$3,625,828. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for the 34th District Court can be obtained from the administrative offices at 11131 Wayne Road, Romulus, Michigan.

The City, along with 12 other communities, jointly participates in the Downriver Sewage Disposal System. The City's share of capital assets, restricted assets (for debt service), and related debt is recorded in the Water and Sewer Fund. During the year, the City paid \$2,407,452 for operations of the system and \$2,457,856 for debt service. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future, except as discussed in Note 12. Financial statements for the joint venture can be obtained from the administrative offices at 415 Clifford, Detroit, MI 48226.

## **Required Supplemental Information**

---

# City of Romulus, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Fund Balance - Beginning of year</b>	\$ 2,242,620	\$ 3,019,859	\$ 3,019,859	\$ -
<b>Resources (Inflows)</b>				
Property taxes	10,806,868	10,806,868	10,766,183	(40,685)
Licenses and permits	1,598,100	1,598,100	1,676,612	78,512
Federal sources	24,271	362,311	274,533	(87,778)
State sources	5,510,890	5,510,890	3,870,922	(1,639,968)
Charges for services	1,704,372	1,704,372	1,741,090	36,718
Fines and forfeitures	2,150,000	3,400,000	3,625,828	225,828
Interest income	500,000	500,000	579,796	79,796
Transfers from other funds	30,241	30,241	30,241	-
Other	294,217	294,217	252,455	(41,762)
Total resources (inflows)	22,618,959	24,206,999	22,817,660	(1,389,339)
<b>Charges to Appropriations (Outflows)</b>				
General government:				
City Council	76,224	76,424	74,981	1,443
Mayor	424,122	425,915	425,624	291
Elections	150,525	156,172	73,024	83,148
Assessor	516,674	535,746	518,134	17,612
Attorney	316,000	395,080	383,118	11,962
Clerk	465,748	475,236	432,277	42,959
Finance department	614,809	620,212	612,013	8,199
Personnel	341,682	341,682	293,575	48,107
Treasurer	486,792	530,600	528,684	1,916
Building and grounds	4,203,141	4,214,705	2,430,465	1,784,240
City-owned property	15,500	15,500	11,461	4,039
Cemetery	140,451	140,451	119,388	21,063
Board of Review	1,938	1,938	1,130	808
Tax Tribunal refunds	30,000	65,000	117,747	(52,747)
Nondepartmental	660,498	456,902	324,144	132,758
Public safety:				
Police	9,111,123	9,342,997	8,933,448	409,549
Fire	2,340,484	2,701,340	2,616,301	85,039
Building inspection	1,261,624	1,300,338	1,218,525	81,813
Planning and zoning	271,255	282,880	250,943	31,937
Emergency preparedness	95,798	96,085	84,641	11,444
Community and economic development:				
Community service	15,800	15,800	15,185	615
Community and development	284,740	285,244	250,219	35,025
Public relations	17,500	17,500	13,676	3,824
Public works:				
Department of Public Works	154,120	159,060	144,606	14,454
Drains-at-large	148,500	148,500	71,077	77,423
Health and welfare:				
Ordinance	278,929	293,468	285,493	7,975
Animal control	234,536	238,113	233,175	4,938

# City of Romulus, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Charges to Appropriations (Outflows) (Continued)</b>				
Recreation and cultural:				
Recreation	\$ 545,075	\$ 587,522	\$ 583,417	\$ 4,105
Library	338,656	341,924	277,289	64,635
Historical	1,015	1,015	798	217
Transfers to other funds	359,000	452,448	449,050	3,398
Total charges to appropriations (outflows)	23,902,259	24,715,797	21,773,608	2,942,189
<b>Fund Balance - End of year</b>	<b>\$ 959,320</b>	<b>\$ 2,511,061</b>	<b>\$ 4,063,911</b>	<b>\$ 1,552,850</b>



## **Other Supplemental Information**

---

# City of Romulus, Michigan

	Nonmajor Special				
	Major Streets	Local Streets	Cable TV	911	Sanitation
<b>Assets</b>					
Cash and investments	\$ 807,369	\$ 134,996	\$ 91,954	\$ 415,486	\$ 255,943
Taxes receivable	-	-	-	-	113,433
Special assessment receivable	-	-	-	-	-
Accounts receivable	262	262	36,928	23,262	-
Due from other funds	-	-	-	-	-
Due from component units	-	-	-	-	275
Due from other governmental units	178,835	64,949	-	-	-
Inventories	37,884	56,708	-	-	-
Total assets	<u>\$ 1,024,350</u>	<u>\$ 256,915</u>	<u>\$ 128,882</u>	<u>\$ 438,748</u>	<u>\$ 369,651</u>
<b>Liabilities and Fund Balances (Deficit)</b>					
<b>Liabilities</b>					
Accounts payable	\$ 26,950	\$ 50,292	\$ -	\$ 2,420	\$ 157,390
Accrued and other liabilities	-	-	-	-	26,767
Accrued wages	10,799	15,991	2,089	-	-
Accounts payable to component units	-	-	-	-	1,019
Advances from component units	-	-	-	-	-
Deferred revenue	-	-	-	-	113,433
Total liabilities	37,749	66,283	2,089	2,420	298,609
<b>Fund Balances (Deficit)</b>					
Reserved	18,406	27,608	-	-	-
Unreserved:					
Designated	306,416	160,106	43,273	351,400	-
Undesignated	661,779	2,918	83,520	84,928	71,042
Total fund balances (deficit)	986,601	190,632	126,793	436,328	71,042
Total liabilities and fund balances (deficit)	<u>\$ 1,024,350</u>	<u>\$ 256,915</u>	<u>\$ 128,882</u>	<u>\$ 438,748</u>	<u>\$ 369,651</u>

**Other Supplemental Information**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2008**

Revenue Funds

		Merriman Road						
Community Development Block Grant	Street Lighting	Special Assessment District	Narcotics Enforcement	Romulus Athletic Center	Nonmajor Debt Service Fund	Nonmajor Capital Projects Fund	Total Nonmajor Governmental Funds	
\$ 4,387	\$ 144,767	\$ 67,967	\$ 1,038,876	\$ 56,142	\$ 947	\$ 270,052	\$ 3,288,886	
-	-	-	-	-	-	-	113,433	
-	-	-	-	-	-	1,069,456	1,069,456	
-	-	-	-	9,910	-	-	70,624	
-	-	-	-	12,763	-	-	12,763	
-	-	-	-	-	-	-	275	
22,374	-	-	-	-	-	-	266,158	
-	-	-	-	17,861	-	-	112,453	
<b>\$ 26,761</b>	<b>\$ 144,767</b>	<b>\$ 67,967</b>	<b>\$ 1,038,876</b>	<b>\$ 96,676</b>	<b>\$ 947</b>	<b>\$ 1,339,508</b>	<b>\$ 4,934,048</b>	
\$ 8,190	\$ -	\$ 12,041	\$ 49,688	\$ 103,695	\$ -	\$ -	\$ 410,666	
-	-	-	-	48,237	-	-	75,004	
-	-	-	-	42,963	-	-	71,842	
-	-	-	-	-	-	-	1,019	
-	-	-	-	156,505	-	-	156,505	
200	-	-	-	-	-	1,069,457	1,183,090	
8,390	-	12,041	49,688	351,400	-	1,069,457	1,898,126	
18,371	-	-	989,188	-	-	-	1,053,573	
-	-	12,468	-	69,450	500	-	943,613	
-	144,767	43,458	-	(324,174)	447	270,051	1,038,736	
18,371	144,767	55,926	989,188	(254,724)	947	270,051	3,035,922	
<b>\$ 26,761</b>	<b>\$ 144,767</b>	<b>\$ 67,967</b>	<b>\$ 1,038,876</b>	<b>\$ 96,676</b>	<b>\$ 947</b>	<b>\$ 1,339,508</b>	<b>\$ 4,934,048</b>	

# City of Romulus, Michigan

	Special Revenue				
	Major Streets	Local Streets	Cable TV	911	Sanitation
<b>Revenue</b>					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ 995,337
Federal sources	-	-	-	-	-
State sources	1,092,003	396,366	-	-	-
Charges for services	-	-	-	-	-
Fines and forfeitures - State	-	-	-	-	-
Interest income	43,203	7,668	4,735	16,171	9,294
Other	19,412	33,641	146,709	149,539	3,503
Total revenue	1,154,618	437,675	151,444	165,710	1,008,134
<b>Expenditures</b>					
Current:					
General government	-	-	178,073	-	-
Public safety	-	-	-	132,778	-
Public works	558,222	963,607	-	-	921,606
Recreation and culture	-	-	-	-	-
Debt service	-	-	-	-	-
Total expenditures	558,222	963,607	178,073	132,778	921,606
<b>Excess of Revenue Over (Under)</b>					
<b>Expenditures</b>	596,396	(525,932)	(26,629)	32,932	86,528
<b>Other Financing Sources (Uses)</b>					
Transfers in	-	646,002	-	-	-
Transfers out	(705,147)	-	-	-	(30,241)
Total other financing sources (uses)	(705,147)	646,002	-	-	(30,241)
<b>Net Change in Fund Balances</b>	(108,751)	120,070	(26,629)	32,932	56,287
<b>Fund Balances - July 1, 2007</b>	1,095,352	70,562	153,422	403,396	14,755
<b>Fund Balances (Deficit) - June 30, 2008</b>	<b>\$ 986,601</b>	<b>\$ 190,632</b>	<b>\$ 126,793</b>	<b>\$ 436,328</b>	<b>\$ 71,042</b>

**Other Supplemental Information**  
**Combining Statement of Revenue, Expenditures, and Changes**  
**in Fund Balances - Nonmajor Governmental Funds**  
**Year Ended June 30, 2008**

Funds							
Community Development Block Grant	Street Lighting	Merriman Road Special Assessment District	Narcotics Enforcement	Romulus Athletic Center	Nonmajor Debt Service Fund	Nonmajor Capital Projects Fund	Total Nonmajor Governmental Funds
\$ -	\$ 415,956	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,411,293
298,114	-	-	263,992	-	-	-	562,106
-	-	-	-	-	-	-	1,488,369
-	-	-	-	279,374	-	-	279,374
-	-	-	579,452	-	-	-	579,452
-	5,853	1,943	29,988	-	672	14,897	134,424
-	-	72,818	-	107,218	-	145,950	678,790
298,114	421,809	74,761	873,432	386,592	672	160,847	5,133,808
-	-	-	-	-	-	-	178,073
-	-	-	539,454	-	-	-	672,232
-	386,444	77,517	-	-	-	-	2,907,396
309,722	-	-	-	641,316	-	-	951,038
-	-	-	-	-	262,313	306,064	568,377
309,722	386,444	77,517	539,454	641,316	262,313	306,064	5,277,116
(11,608)	35,365	(2,756)	333,978	(254,724)	(261,641)	(145,217)	(143,308)
-	-	-	-	-	259,000	159,145	1,064,147
-	-	-	-	-	-	-	(735,388)
-	-	-	-	-	259,000	159,145	328,759
(11,608)	35,365	(2,756)	333,978	(254,724)	(2,641)	13,928	185,451
29,979	109,402	58,682	655,210	-	3,588	256,123	2,850,471
<b>\$ 18,371</b>	<b>\$ 144,767</b>	<b>\$ 55,926</b>	<b>\$ 989,188</b>	<b>\$ (254,724)</b>	<b>\$ 947</b>	<b>\$ 270,051</b>	<b>\$ 3,035,922</b>

# City of Romulus, Michigan

## Other Supplemental Information Combining Statement of Net Assets Internal Service Funds June 30, 2008

	Vehicle and Equipment Fund	Computer and Equipment Fund	Property and Liability Self- insurance Fund	Long-term Disability Self- insurance Fund	Totals
<b>Assets</b>					
Current assets:					
Cash and investments	\$ 402,902	\$ 613,303	\$ 206,230	\$ 38,514	\$ 1,260,949
Inventories and prepaid expenses	46,334	-	-	-	46,334
Total current assets	449,236	613,303	206,230	38,514	1,307,283
Noncurrent assets - Capital assets	2,336,666	92,413	-	-	2,429,079
Total assets	2,785,902	705,716	206,230	38,514	3,736,362
<b>Liabilities</b>					
Current liabilities:					
Accounts payable	31,801	21,598	40,850	-	94,249
Accrued wages	11,442	3,050	-	-	14,492
Current portion of compensated absences	33,515	13,512	-	-	47,027
Current portion of long-term debt	213,560	-	-	-	213,560
Total current liabilities	290,318	38,160	40,850	-	369,328
Noncurrent liabilities - Provision for compensated absences - Net of current portion	8,379	3,378	-	-	11,757
Total liabilities	298,697	41,538	40,850	-	381,085
<b>Net Assets</b>					
Invested in capital assets - Net of related debt	2,123,106	92,413	-	-	2,215,519
Unrestricted	364,099	571,765	165,380	38,514	1,139,758
Total net assets	<u>\$ 2,487,205</u>	<u>\$ 664,178</u>	<u>\$ 165,380</u>	<u>\$ 38,514</u>	<u>\$ 3,355,277</u>

# City of Romulus, Michigan

## Other Supplemental Information Combining Statement of Revenue, Expenses, and Changes in Net Assets Internal Service Funds Year Ended June 30, 2008

	Vehicle and Equipment Fund	Computer and Equipment Fund	Property and Liability Self- insurance Fund	Long-term Disability Self- insurance Fund	Totals
<b>Operating Revenue</b>					
Charges to other funds	\$ 1,839,182	\$ 463,613	\$ 580,280	\$ -	\$ 2,883,075
Other	9,023	-	-	-	9,023
Total operating revenue	1,848,205	463,613	580,280	-	2,892,098
<b>Operating Expenses</b>					
Salaries	371,558	219,127	-	-	590,685
Operating supplies	14,887	19,964	-	-	34,851
Repairs and maintenance	217,693	113,882	-	-	331,575
Gas and oil	379,163	-	-	-	379,163
Insurance	213,490	17,310	599,329	-	830,129
Fringe benefits	211,547	23,864	-	-	235,411
Miscellaneous	4,999	7,671	-	-	12,670
Depreciation	569,481	54,314	-	-	623,795
Contractual services	54,774	26,929	-	-	81,703
Claims and legal	-	-	46,322	-	46,322
Total operating expenses	2,037,592	483,061	645,651	-	3,166,304
<b>Operating Loss</b>	(189,387)	(19,448)	(65,371)	-	(274,206)
<b>Nonoperating Revenue (Expense)</b>					
Investment income	-	22,111	8,603	1,603	32,317
Interest expense	(15,383)	-	-	-	(15,383)
Total nonoperating revenue (expense)	(15,383)	22,111	8,603	1,603	16,934
<b>Income (Loss) - Before transfers</b>	(204,770)	2,663	(56,768)	1,603	(257,272)
<b>Transfers - Transfers from other funds</b>	90,050	-	-	-	90,050
<b>Net Increase (Decrease) in Net Assets</b>	(114,720)	2,663	(56,768)	1,603	(167,222)
<b>Net Assets - Beginning of year</b>	2,601,925	661,515	222,148	36,911	3,522,499
<b>Net Assets - End of year</b>	<u>\$ 2,487,205</u>	<u>\$ 664,178</u>	<u>\$ 165,380</u>	<u>\$ 38,514</u>	<u>\$ 3,355,277</u>

# City of Romulus, Michigan

## Other Supplemental Information Combining Statement of Cash Flows Internal Service Funds Year Ended June 30, 2008

	Vehicle and Equipment Fund	Computer and Equipment Fund	Property and Liability Self- insurance Fund	Long-term Disability Self- insurance Fund	Totals
<b>Cash Flows from Operating Activities</b>					
Receipts from other funds	\$ 1,848,205	\$ 486,186	\$ 580,280	\$ -	\$ 2,914,671
Receipts from (payments to) suppliers	(880,976)	(180,485)	40,850	-	(1,020,611)
Payments to employees	(577,992)	(244,991)	(645,651)	-	(1,468,634)
Net cash provided by (used in) operating activities	389,237	60,710	(24,521)	-	425,426
<b>Cash Flows from Noncapital Financing Activities -</b>					
Transfers in	90,050	-	-	-	90,050
<b>Cash Flows from Capital and Related Financing Activities</b>					
Principal paid on long-term debt	(204,926)	-	-	-	(204,926)
Interest paid on long-term debt	(15,383)	-	-	-	(15,383)
Purchase of capital assets	(98,066)	(60,055)	-	-	(158,121)
Net cash used in capital and related financing activities	(318,375)	(60,055)	-	-	(378,430)
<b>Cash Flows from Investing Activities - Investment income</b>	-	22,111	8,603	1,603	32,317
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	160,912	22,766	(15,918)	1,603	169,363
<b>Cash and Cash Equivalents - July 1, 2007</b>	241,990	590,537	222,148	36,911	1,091,586
<b>Cash and Cash Equivalents - June 30, 2008</b>	<u>\$ 402,902</u>	<u>\$ 613,303</u>	<u>\$ 206,230</u>	<u>\$ 38,514</u>	<u>\$ 1,260,949</u>
<b>Reconciliation of Operating Loss to Net Cash from Operating Activities</b>					
Operating loss	\$ (189,387)	\$ (19,448)	\$ (65,371)	\$ -	\$ (274,206)
Adjustments to reconcile operating loss to net cash from operating activities:					
Depreciation	569,481	54,314	-	-	623,795
Changes in assets and liabilities:					
Due from other funds		22,573			22,573
Inventory	7,626	-	-	-	7,626
Accounts payable	(3,596)	5,271	40,850	-	42,525
Accrued and other liabilities	5,113	(2,000)	-	-	3,113
Net cash provided by (used in) operating activities	<u>\$ 389,237</u>	<u>\$ 60,710</u>	<u>\$ (24,521)</u>	<u>\$ -</u>	<u>\$ 425,426</u>



# City of Romulus, Michigan

## Other Supplemental Information Combining Statement of Assets and Liabilities Agency Funds June 30, 2008

	Revolving Fund	General Tax Fund	Current Tax Fund	Delinquent Personal Property Tax Fund	Payroll Fund	Totals
<b>Assets</b>						
Cash and investments	\$ 3,468,073	\$ -	\$ -	\$ 186,273	\$ 192,301	\$ 3,846,647
Accounts receivable	500	-	-	-	-	500
Due from other governmental units	-	3,458	15,069	-	3,097	21,624
Total assets	<u>\$ 3,468,573</u>	<u>\$ 3,458</u>	<u>\$ 15,069</u>	<u>\$ 186,273</u>	<u>\$ 195,398</u>	<u>\$ 3,868,771</u>
<b>Liabilities</b>						
Due to other governmental units	\$ 390,981	\$ 3,458	\$ 15,069	\$ 31,102	\$ -	\$ 440,610
Accrued and other liabilities	3,077,592	-	-	155,171	195,398	3,428,161
Total liabilities	<u>\$ 3,468,573</u>	<u>\$ 3,458</u>	<u>\$ 15,069</u>	<u>\$ 186,273</u>	<u>\$ 195,398</u>	<u>\$ 3,868,771</u>

# City of Romulus, Michigan

## Other Supplemental Information Governmental Fund Balance Sheet/Statement of Net Assets Tax Increment Finance Authority June 30, 2008

	Modified Accrual	Full Accrual Adjustments	Full Accrual
<b>Assets</b>			
Cash and investments	\$ 11,599,750	\$ -	\$ 11,599,750
Receivables:			
Interest	152,059	-	152,059
Property taxes	60,000	-	60,000
Due from other governmental units	28,332	-	28,332
Receivable from primary government	44,881	-	44,881
Advances to primary government	156,505	-	156,505
Prepaid expenses	189,611	-	189,611
Other assets - Capitalized debt costs	-	1,028,244	1,028,244
Capital assets not being depreciated	-	2,992,861	2,992,861
Capital assets being depreciated	-	23,701,218	23,701,218
	<hr/>	<hr/>	<hr/>
Total assets	12,231,138	27,722,323	39,953,461
<b>Liabilities</b>			
Accounts payable	629,963	-	629,963
Accrued and other liabilities	65,732	-	65,732
Retainage payable	41,721	-	41,721
Payable to primary government	379,971	-	379,971
Due to other governmental units	1,257,099	-	1,257,099
Compensated absences:			
Due within one year	-	18,416	18,416
Due in more than one year	-	4,604	4,604
Bonds payable:			
Due within one year	-	1,635,000	1,635,000
Due in more than one year	-	21,515,000	21,515,000
	<hr/>	<hr/>	<hr/>
Total liabilities	2,374,486	23,173,020	25,547,506
<b>Fund Balance - Unreserved - Undesignated</b>	<hr/>	<hr/>	
	9,856,652	(9,856,652)	
	<hr/>		
Total liabilities and fund balance	<u><u>\$ 12,231,138</u></u>		
<b>Net Assets</b>			
Invested in capital assets - Net of related debt		3,544,079	3,544,079
Unrestricted		10,861,876	10,861,876
		<hr/>	<hr/>
Total net assets		<u><u>\$ 14,405,955</u></u>	<u><u>\$ 14,405,955</u></u>

# City of Romulus, Michigan

## Other Supplemental Information Statement of Government Revenue, Expenditures, and Changes in Fund Balance/Statement of Activities Tax Increment Finance Authority Year Ended June 30, 2008

	Modified Accrual	Full Accrual Adjustments	Full Accrual
<b>Revenue</b>			
Property taxes	\$ 5,641,629	\$ -	\$ 5,641,629
Federal sources	135,542	-	135,542
Interest income and other	637,306	-	637,306
Total revenue	6,414,477	-	6,414,477
<b>Expenditures</b>			
Capital outlay	8,022,024	(7,145,634)	876,390
Debt service	2,591,560	(1,575,000)	1,016,560
Administrative and other	918,524	35,526	954,050
Total expenditures	11,532,108	(8,685,108)	2,847,000
<b>Excess of Expenditures Over Revenue/Change in Net Assets</b>	(5,117,631)	8,685,108	3,567,477
<b>Fund Balance/Net Assets - Beginning of year</b>	14,974,283	(4,135,805)	10,838,478
<b>Fund Balance/Net Assets - End of year</b>	<u>\$ 9,856,652</u>	<u>\$ 4,549,303</u>	<u>\$ 14,405,955</u>

**Report on Internal Control Over  
Financial Reporting and on Compliance and  
Other Matters Based on an Audit of Financial  
Statements Performed in Accordance with  
*Government Auditing Standards***

---

Report on Internal Control Over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements Performed in  
Accordance with *Government Auditing Standards*

To the Honorable Mayor and  
Members of the City Council  
City of Romulus, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Romulus, Michigan as of and for the year ended June 30, 2008, which collectively comprise the City of Romulus, Michigan's basic financial statements, and have issued our report thereon dated December 11, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City of Romulus, Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Romulus, Michigan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Romulus, Michigan's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal controls. We consider the control deficiencies described in the accompanying schedule of findings as items 2008-01 and 2008-02 to be significant deficiencies in internal control over financial reporting.

To the Honorable Mayor and  
Members of the City Council  
City of Romulus, Michigan

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe neither of the significant deficiencies described above is a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Romulus, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City of Romulus, Michigan's response to the significant deficiencies and findings related to noncompliance identified in our audit and described in the accompanying schedule of findings has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the City of Romulus, Michigan's management and the City Council and is not intended to be and should not be used by anyone other than these specified parties.

*Plante & Moran, PLLC*

December 11, 2008

# City of Romulus, Michigan

## Schedule of Findings Year Ended June 30, 2008

Reference Number	Findings
2008-01	<p><b>Finding Type</b> - Significant deficiency</p> <p><b>Criteria</b> - A complete and accurate schedule of expenditures of federal awards (SEFA) is necessary to record all program expenditures as required by federal regulations.</p> <p><b>Condition</b> - Adjustments made by the City to the original SEFA provided as part of the audit caused the conclusion regarding the need for an A-133 audit to change.</p> <p><b>Context</b> - The original SEFA provided by the City as part of the audit included federal revenue associated with federal forfeitures rather than federal expenditures.</p> <p><b>Effect</b> - Due to the fact that the amount of federal expenditures reported on the SEFA was changed after the start of the audit, the determination of whether an A-133 audit was required was changed.</p> <p><b>Cause</b> - Internal control procedures were not developed and followed on a consistent basis to ensure amounts reported on the SEFA were accurate.</p> <p><b>Recommendation</b> - We recommend that the City review its procedures related to identifying and reporting federal expenditures in its SEFA to ensure all grants are captured at the appropriate amounts.</p> <p><b>Views of Responsible Officials and Planned Corrective Actions</b> - The City understands the importance of timely reconciliations and will continue to focus on implementing the necessary procedures to ensure its SEFA properly reflects federal expenditures.</p>

# City of Romulus, Michigan

## Schedule of Findings (Continued) Year Ended June 30, 2008

Reference Number	Finding
2008-02	<p><b>Finding Type</b> - Significant deficiency</p> <p><b>Criteria</b> - For the period under audit, SAS 112 was effective, under which certain adjusting entries indicative of control matters now represent significant deficiencies.</p> <p><b>Condition</b> - In connection with the City's financial statement audit for the year ended June 30, 2008, the City was required to post several entries, including an entry to reflect contributions from the Tax Increment Financing Authority (TIFA) and the related construction in progress related to a construction project, entries to properly reflect checks that had been issued but not released as of year end, and an entry to adjust the taxes captured by the TIFA.</p> <p><b>Context</b> - Historically, the City's auditors have recommended journal entries as part of the audit. With the implementation of Statement on Auditing Standards (SAS) No. 112, <i>Communicating Internal Control Related Matters Identified in an Audit</i>, SAS 112 now defines entries of this nature to be significant deficiencies.</p> <p><b>Effect</b> - The City's unadjusted financial statements were misstated by the amount of the unrecorded construction in progress and related capital contribution, the amount of held checks and the difference between the original and adjusted taxes captured by the TIFA.</p> <p><b>Cause</b> - The adjusting entry related to construction in progress was due to the fact that the project expenses were incurred by the TIFA, but the asset was contributed to the Water and Sewer Fund. The adjustment related to the checks issued but not released was a result in a change in the processing of the July 1, 2008 check run. The adjusting entry related to the taxes captured by the TIFA was due to adjustments made to the 2604 capture report subsequent to year end.</p> <p><b>Recommendation</b> - The City should implement procedures to ensure all on-going construction projects are recorded as construction in progress. The City should review its procedures related to reconciliation of outstanding checks to ensure any checks issued but not released are properly identified. In addition, the City should ensure controls are implemented to adjust the taxes captured by the TIFA to the most updated version of the 2604 capture report.</p>



# City of Romulus, Michigan

## Schedule of Findings (Continued) Year Ended June 30, 2008

Reference Number	Finding
2008-2 (Continued)	<b>Views of Responsible Officials and Planned Corrective Actions</b> - The City will focus on reviewing on-going construction projects to ensure they are properly recorded as construction in progress. The City will review outstanding check lists in the bank reconciliation process to ensure all checks have been released. The City will also ensure the taxes captured by the TIFA are updated to the most recent version of the 2604 capture report. In the current year, the City's staff was able to significantly limit and reduce the number of journal entries made by the auditors.

December 11, 2008

To the Honorable Mayor and Members of  
the City Council  
City of Romulus  
11111 Wayne Road  
Romulus, MI 48174

Dear Mayor and City Council Members:

We recently completed our audit of the basic financial statements for the City of Romulus, Michigan for the year ended June 30, 2008. As a result of our audit, we have the following comments and recommendations for your review and consideration.

### State-shared Revenue

The future of the State's revenue-sharing program continues to be uncertain. The Governor released her proposal of the State's fiscal year 2009 budget (for the year ended September 30, 2009) originally in February 2008. Over the course of budget deliberations in the spring and early summer, the Legislature further debated the level of the revenue sharing funding, resulting in a compromise by the Senate and House to fund revenue sharing equal to the projected fiscal year 2008 (fiscal year ending September 30, 2008) amounts, plus provide an increase of 2 percent of the statutory portion of revenue sharing received in FY 07. This proposal was presented to the Governor on July 25, and enacted in mid-August.

Here is a summary (in millions of dollars) of the revenue sharing budget submitted to the Governor:

	FY 2007 Actual	FY 2008 Projected	FY 2009 Projected	% change
Cities, Villages and Townships:				
Constitutional	\$ 665.980	\$ 682.780	\$ 675.992	-0.99%
Statutory	404.920	392.050	406.933	3.80%
Total to CVT's	1,070.900	1,074.830	1,082.925	0.75%
Counties (statutory)	-	-	2.394	n/a
Total revenue sharing	\$ 1,070.900	\$ 1,074.830	\$ 1,085.319	0.98%

While the projection is for an overall increase of 0.75% (for cities, villages and townships), the impact will not be evenly distributed between all local units. Remember, the 2% increase is for the statutory portion only – not the constitutional portion. The intent is for the total revenue sharing (constitutional plus statutory) in FY 2009 to equal the total of constitutional and statutory revenue sharing received in FY 2008, plus an additional payment equal to 2% of the FY 2007 statutory revenue sharing received by the local unit. The maximum increase that the City may experience is approximately \$12,600.

The Governor's proposed budget also included \$2.4 million to restore state revenue sharing payments for the six qualifying counties that will exhaust their revenue sharing reserve funds in fiscal year 2008/2009. As you may remember, a reserve fund was created for each county in 2005 when the State eliminated counties from the revenue sharing program (remember, counties only receive statutory revenue sharing, not constitutional). In 2005, counties were required to phase in the early collection of winter property tax payments and to create a reserve fund with a portion of these monies. Counties have been drawing on their reserve funds to replace lost statutory revenue sharing. When the reserve fund is depleted, counties will then look to the State to re-enter the statutory portion of the revenue sharing program. Prior to their elimination from the revenue sharing program in 2005, counties statewide received approximately \$182 million annually.

While it is encouraging that this budget funds revenue sharing at a higher level than last year and counties re-entering the revenue sharing program have been budgeted as an additional payment, great uncertainty remains with the revenue sharing program. Actual revenue sharing distributions will depend on the stability of the State's budget, as well as the actual level of state tax collections. In addition, we need to remember that the statutory formula expired in 2007 and a new, permanent formula has not been enacted.

If the State were to eliminate the statutory portion of revenue sharing (as the constitutional portion cannot be modified without a change to the State's constitution), the City has approximately \$631,000 annually at risk in its General Fund budget based on 2007 funding levels. In light of the current environment, we strongly encourage the City to be conservative when budgeting or projecting the revenue sharing line item.

### **Funding of Other Postemployment Benefits (i.e., Retiree Health Care)**

We have been discussing with the City for several years the new accounting standards - referred to as GASB 43 and GASB 45 - which require local governments to recognize the cost of retiree health care and other similar nonpension benefits over the working life of employees on an actuarial basis. The City obtained the actuarial valuation required by the new standards in the current year and has included the required disclosure related to the unfunded actuarial liability (approximately \$30 million at June 30, 2007, the date of the most recent valuation). GASB 45 is effective for the City's fiscal year ending June 30, 2009. We encourage the City to review the information provided by the actuary to determine whether the City will be able to fund the obligation at the level determined by the actuary. The actuarial calculation indicates an annual required contribution of approximately \$2.4 million to be in full compliance with GASB 45 compared to the current funding level of approximately \$1.1 million beginning with the year ending June 30, 2009. These costs will need to continue to be incorporated into the City's budget process each year going forward, placing a new significant burden on the City's budget in a challenging revenue environment.

## **Financial Position**

Like many other communities, Romulus continues to be vulnerable to the structural challenges with Michigan's municipal finance model. The City's ability to maintain its General Fund fund balance during the current economic environment is a testament to the City's continued diligence on controlling costs, managing revenue and the budget process overall. Once again, the City's actual General Fund spending was significantly less than budget and court revenue continues to exceed expectations and historical levels.

The State's economic forecast has not improved, with the continued possibility of cuts to state-shared revenue, property tax limitations heightened by the impact of taxable value declines due to the foreclosures and bank sales, new funding requirements related to retiree health care discussed above and the inherent limitations on the City to generate alternate sources of revenue. The challenges continue to mount related to the City's ability to continue to provide services at the current level with existing revenue. The City has experienced steady growth in property tax revenue in the General Fund. There is real concern that due to economic forces beyond the City's control that the historical growth pattern for property taxes will change going forward. The exact amount of slower growth in property tax revenue and for what period is difficult to predict.

The City faces other financial challenges as well. The City, like other Michigan governmental units, has capital needs and faces numerous tax appeals. The City also has significant open financial matters with the Wayne County Airport Authority, etc. There are very serious threats in the current financial environment which will make the City's financial results for the last several years difficult to replicate. We continue to encourage the City to develop a multi-year financial model that will assist the City in analyzing the impact of changes in its financial condition on General Fund fund balance.

## **Other Matters**

**Local Street Fund Operations** - The available fund balance in the City's Local Street Fund continues to decline. The fund has no meaningful unreserved/undesignated funds available at June 30, 2008. Annual expenditures in the fund were approximately \$1 million last year. The City is able to utilize Major Street Fund monies to fund local street projects under provisions within Act 51, the State transportation code. The amount transferred for the year ended June 30, 2008 was approximately \$650,000. With the continued contraction of the State's economy, we strongly encourage the City to continue to monitor this financial matter closely and to consider alternative methods of funding local road expenditures. This situation is not unique to the City of Romulus. Most Michigan local governments do not receive adequate funding from the State of Michigan to address their road funding needs.

**Vehicle and Equipment Fund Operations** - The City's unrestricted net assets (available funds for operations) in the Vehicle and Equipment Fund have declined in recent years. This year the City was able to increase the fund's unrestricted net assets by increasing allocations to other funds. The unrestricted net assets in the Vehicle and Equipment Fund were approximately \$364,000 (annual expenses were approximately \$2 million). The City utilizes this fund to purchase and maintain its motor vehicle pool and other equipment. We encourage the City to continue to monitor the funds activity to ensure adequate reserves are available for continued capital investments.

**Water and Sewer Fund Operations** – As part of Michigan's new "Planning Enabling Act", many local governments will now be required to prepare an annual "capital improvements program". This new requirement is effective September 1, 2008. According to Public Act 33 of 2008, a planning commission, after the adoption of a master plan, shall annually prepare a capital improvements program of public structures and improvements. The law does allow that if the planning commission is exempted from this requirement, the legislative body shall prepare and adopt a capital improvements program or delegate this responsibility to the administration of the local unit for the ultimate approval by the legislative body. The law provides that the capital improvement program report public structures and improvements that, in the City's judgment, will be needed or desirable within the next six years. The law also requires that the public structures and improvements included in the capital improvements program be prioritized. We continue to strongly recommend that the City utilize a long-term financial planning model to review the asset management and rate-setting structure of the fund. This process should include a comprehensive analysis of cost of service by customer class, and consider capital needs and current and future debt service requirements and the impact of the above on retail rate design.

**Financial Matters with the Wayne County Airport Authority** - The City resolved several matters with Wayne County in the current year, including transfer of title of the City's DPW building and finalization of retainages and receivables related to road projects. The City continues to have a number of significant financial matters open with the Wayne County Airport Authority (glycol and sewer billings, tax appeals, etc.). We continue to encourage the City to maintain a consolidated list of these issues as the City works on bringing these matters to a final resolution.

**Romulus Athletic Center (RAC) Fund** - The City opened its athletic center during the year ended June 30, 2008. We encourage the City with its third-party operator to continue to focus on developing a long-term strategic forecasting model and marketing plan. The facility opened in April 2008 and only had three months of operations for the year ended June 30, 2008 and a deficit was reported. The City will be required to adopt a deficit elimination plan to be filed with the Michigan Department of Treasury. Also, as part of the audit, we reviewed certain cash handling procedures at the RAC and provided comments to the City.

**Tax Increment Finance Authority (TIFA) and Downtown Development Authority (DDA)** – As we discussed above, there is downward pressure on taxable values due to foreclosures, bank sales of property and just the overall decline occurring with property values in Michigan. While this decline impacts the City's General Fund, it also impacts the TIFA and DDA that are primarily funded by property tax captures. We recommend that this be considered as part of the future planning for these entities.

### **Internal Control Considerations**

As we have for the last several years, we again complied with Statement on Auditing Standards Number 99 (referred to as SAS 99) entitled *Consideration of Fraud in a Financial Statement Audit*. In addition, new auditing standards were effective for the City's audit this year. These new rules, which are known collectively as the new Risk Assessment Standards, significantly changed the procedures auditors must perform in all financial statement audits. In order to implement these standards, the City finance and information technology staff spent a significant amount of time documenting processes and controls. During the audit, we noted the following matters involving the City's internal controls that we wanted to bring to your attention:

**Account Reconciliations** – The City does not currently receive and maintain detailed delinquent personal property tax data from its collection agent, in order to reconcile the receivable to the general ledger. We recommend the City work with its agent to develop a process during the year to periodically reconcile the accounts receivable subledger to the general ledger balance to further enhance controls.

**Cash Receipts** - During our audit testing, we noted that the same individual who is responsible for cash receipting is also making the daily deposits to the bank. We recommend that the City segregate these two functions to separate staff members for internal control purposes.

**Payroll** - During the last year's audit, we noted that the City's payroll department does not receive documentation related to employee requests for vacation time from all departments. We encourage the City to ensure that documentation policies are consistent across departments and that payroll receives all information necessary to verify time off.

**Inventory** – It is our understanding that the City does not currently conduct an annual inventory of equipment outside of the City's vehicle inventory. We recommend the City review its procedures related to tracking of City owned equipment to determine whether a periodic inventory of these items is appropriate.

In addition to the comments and recommendations in this letter, our audit also identified, as required by the new Statement on Auditing Standards No. 112, significant deficiencies in internal controls that have been reported to you in the accompanying report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*. The two matters noted in that report relate to preparation of the schedule of expenditures of federal awards and journal entries. This report is included as a supplementary report of the basic financial statements, and we recommend that the matters we have noted there receive your careful consideration.

### **Property Tax Developments**

As we discussed, the City will need to carefully monitor the impact of taxable value trends on property tax revenue. At the same time, there are also several pieces of legislation in Lansing that will impact property taxes going forward. Examples include:

- House Bill 4215 (Public Act 96 of 2008) allows property owners to obtain two principal residence exemptions in certain situations. The bill was designed for situations where a homeowner has purchased a new home and is unable to sell the existing home. The dual exemption only applies if certain conditions are met (i.e. the property previously occupied is for sale, not occupied, not leased or available for lease, etc.).
- A series of bills were introduced in March 2007 as part of a package to stimulate home sales (House Bills 4440, 4441 and 4442). The lead bill of that package, House Bill 4440, establishes an 18 month moratorium on the “pop-up” or “uncapping” of taxable value to state equalized value at the time of sale or transfer of a property. Property sales or transfers occurring in the timeframe of the moratorium would continue to pay property taxes at the previous taxable value amount. The “pop-up” or “uncapping” of taxable value would be delayed until the property was sold or transferred in later years. House Bill 4440 actually passed the House in March 2007 and is currently in the Michigan Senate.
- Many property owners continue to struggle with the concept that their individual taxable values actually increased during a time that overall property values – and even their individual property values – have fallen. As we all have re-learned in recent months, it is a constitutional requirement that changed with Proposal A in 1994. It may be helpful to remember the principle behind Proposal A – its purpose was to disconnect taxable values from market value increases, and instead limit the growth in taxable values to the lesser of 5% or inflation, until that point that the property transfers ownership. Now that the market values are declining in many areas, Proposal A continues to stay disconnected, and allows the taxable value to increase by the lesser of 5% or inflation (up until the point that it re-connects with market values).

Fairly or not, this year, many property owners said it did not feel right when they saw their taxable value increase by inflation when market value did not. This has led to a discussion as to whether a third variable, called "change in market value", needs to be added to the Proposal A formula. In what some are calling a "super cap", the Proposal A formula to determine annual increases in taxable value (if property is not sold or transferred) would be the lesser of three components: inflation, change in market value or 5 percent. Therefore, if the market value of the parcel was either flat or declining - even if the taxable value of the particular parcel was less than state equalized value - there would be NO annual increase. To date, a proposal to accomplish this change has not completely moved through the Legislature. A change of this nature would negatively impact local government budgets.

- A Michigan Supreme Court case has changed how local governments can treat public service improvements by developers. Leading up to the court case, as private property owners or developers installed public service improvements (i.e. such as street lights, water and sewer lines, etc.) there was normally an increase in their property tax assessment. The Michigan Supreme Court upheld a Court of Appeals ruling that the installation of public service improvements do not constitute a taxable addition.

### **Reminder - Change in Investment Act**

Public Act 213 of 2007, adopted at the end of 2007 requires local governments to perform their investment reporting quarterly to the governing body. The investment of surplus monies by Michigan local governments is controlled by Public Act 20 of 1943. The Act previously required investment reporting annually. It is suggested that the required quarterly reports list investments by institution along with maturity dates and interest rates.

### **Other Legislative Issues**

#### **FACT Act – potential impact on municipal utility systems**

The Fair and Accurate Credit Transactions ACT was passed in 2003, with final regulations published at the end of 2007. These FTC rules, and more specifically the Red Flag Rules encompassed in them, MAY be applicable to municipal utility systems. The rules, put in place as a measure to protect against identity theft, indicate that a "creditor" with a "covered account" must implement a written identify theft prevention program to detect, prevent and mitigate identity theft in connection with the opening of a covered account or any existing covered account.



To the Honorable Mayor and Members of      8  
the City Council  
City of Romulus

December 11, 2008

Under the rules, a creditor is defined very broadly, encompassing any entity that defers payment for goods and services, as defined under the Red Flag Rules. This most likely includes municipalities that "defer payments" by their utility customers when water, sewer, electric, gas, trash and the like are sold to customers day-by-day but paid for at the end of the billing cycle.

The act would require written policies and procedures to be put in place to identify and follow up on red flags. Red flags, just as an example, would be the presentation by the customer of suspicious personal information that is inconsistent with external sources, or suspicious documents provided for identification that appear to be alerted. The regulations appear to be flexible so that each government would have the ability to design an identity theft program that is tailored to its particular operation, given its size, technology currently utilized, and the perceived risk of identity theft in its community.

We encourage you to follow up with legal counsel if you believe this Act may apply to your governmental unit.

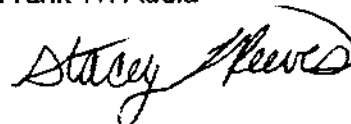
We would like to thank the finance department (particularly Debra Hoffman and Abbie Akins), as well as all of the City of Romulus' personnel for their assistance and cooperation during the audit. We appreciate the opportunity to serve as your auditors. If there are any questions about your financial report or the above comments and recommendations, we would be happy to discuss them at your convenience.

Very truly yours,

**Plante & Moran, PLLC**



Frank W. Audia



Stacey L. Reeves